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No. 13



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NATIONAL ECONOMIC POLICY

RAISING LEVEL OF FINANCIAL, ACCOUNTING PERSONNEL DISCUSSED

Beijing CAIWU YU KUAJJI [FINANCE AND ACCOUNTING] in Chinese No 2, 20 Feb 79
pp 1-2

[Article by Lu Peijian [0712 1014 0313]: Vigorously Raise the Professional Level of Financial and Accounting Personnel"]

[Text] The Third Plenary Session of the Central Committee of the CCP 11th Congress decided that the focus of the party's work from 1979 on would be shifted to modernized socialist construction. The new question put before the financial and accounting personnel was how to make financial accounting work suit the demands of the new situation and promote the speedy realization of socialist modernization.

Financial accounting is an indispensable tool in managing the economy. Marx said that, in production, "the more the process is carried out in accordance with the social scale, the more the purely individual quality is lost, and the more bookkeeping, which controls and sums up the concepts of the process, is necessary." He further said: "After the elimination of the capitalist approach to production, but while social production still exists, the determination of value will still play a governing role in the following sense: The regulation of labor time and the allocation of social labor among the different categories of production and, ultimately, the bookkeeping involved with this would all become more important than at any time in the past." The entire practice from the beginning of mankind until now has fully proved the accuracy of Marx's scientific conclusion. The long process of mankind's first use of the fingers as a natural calculator (hence the expression "what can be counted on one's fingers") to the application of the electronic computer was nothing other than a process in which the developmental needs of social production pushed forward more and more meticulous accounting, as well as a process in which the development of the science of accounting in turn pushed forward the development of production. Without accounting, mankind could not possibly sum up production experiences, nor could we accumulate material wealth and culture or understand the objective laws of social development. Lin Biao and the "gang of four" regarded

accounting and related things such as costs, prices, profits, bonuses and currency as "capitalistic." They even used the pretext of "we must settle political accounts, not economic accounts" to basically negate accounting. This was sheer nonsense which totally disregarded historical facts.

At present, under the leadership of the party Central Committee headed by Comrade Hua Guofeng, we have already shifted the focus of work of the whole party and the whole nation to modernized construction. The production scale will become larger and larger, the specialized division of labor and coordination in society will become more and more minute, and the exchange of commodities will become broader and broader. If we do not make full use of financial accounting to carry out precise calculations and supervision over social economic activities, then how can we carry out scientific management and make rational use of manpower, materiel and financial resources in the various processes of production promotion, distribution, circulation and consumption? How can we act in accordance with objective economic laws, strengthen overall balance and enhance the harmonious, continuous and high-speed development of the national economy? Furthermore, in order to accelerate the pace of the four modernizations, we must import foreign advanced technological equipment and capital, and in some cases must even carry out joint operations with foreign capital. Thus, many new questions have been brought forth in economic management and finance and accounting which await our solution. If we do not strengthen financial accounting work and greatly raise the professional levels, then how can we meet the demands of new situations?

In order to suit the objective situation, the financial and accounting front must have a financial and accounting corps that understands politics as well as business. Practice has proved that the troops on the financial and accounting front are very good ones. These troops have conscientiously implemented Chairman Mao's revolutionary line and worked carefully and diligently. They have rendered contributions to the socialist cause. Even when Lin Biao and the "gang of four" were running rampant, these troops still resolutely stood by their work posts, showing concern for the state's interest, defending the financial and accounting system, struggling against acts that violated the law and discipline, and being praised by the leadership and the masses. This was very valuable. However, currently there is one prominent problem, which is that the professional level of many of our comrades is still relatively low and is far from able to meet the demands of strengthening financial and accounting work. In accordance with a recent investigation of 1,200 large, medium and small industrial enterprises, among the existing financial and accounting personnel, 7 percent have graduated in finance and economics from institutions of higher learning, 15 percent from middle financial and accounting schools, 30 percent have had short-term training, and 48 percent have had no special training in finance and accounting. This condition shows that, among the present financial and accounting personnel, only a few are proficient in their vocations. This could not

possibly help directly affecting the raising of the level of management and administration. Some do not know how to keep accounts, settle accounts and render accounts. Others who can handle financial income and expenses do not know how to calculate costs and do not know how to analyze economic activities. Thus they cannot accurately report the consumption and gains in production. As a result, they fail to take stock of their enterprises and fail to record the actual consumption and gains and losses, and bring about confusion in management and severe waste. It should also be noted that most of the present personnel who are proficient in finance and accounting are over 50. Contradictions such as temporary shortages and a lack of successors have already been conspicuously exposed. If we still do not grasp the task of training people in these vocations, then the professional level of financial and accounting personnel will continue to drop. Thus, we must fully understand the seriousness of this problem, make a decision as early as possible and grasp the raising of the professional level of financial and accounting personnel as an urgent matter.

Chairman Mao said: "We must definitely oppose the tendency of ignoring politics. But it will not do to be ignorant of technology and in our professions. Our comrades...should all acquire a little technology and vocational knowledge, become adept and enable themselves to become both red and expert." Financial and accounting personnel should strive to study Marxism-Leninism and Mao Zedong Thought, continuously transforming their world outlook and struggling wholeheartedly for the socialist cause. At the same time, they should assiduously study the financial and accounting vocations. In the past few years, the interference and sabotage of Lin Biao and the "gang of four" confused the ideology of a considerable number of financial and accounting personnel. They were afraid to learn their vocations, did not attach importance to learning them, and squandered their precious time. Now the party Central Committee headed by Chairman Hua has called upon us to study economics, study technology and study management. We must eradicate the pernicious influence of Lin Biao and the "gang of four," master as quickly as possible a set of vocational skills and enable ourselves to become professionals skilled in our vocations.

How should financial and account personnel raise their vocational level? The important thing is to be good at learning. Chairman Mao once pointed out: "Reading is learning, but applying is also learning, and the more important kind of learning at that." We should learn theoretical knowledge from books, for it is the summary of other people's experiences. But more importantly, we should ourselves learn through practice in work, paying attention to summing up our experiences and linking theory with practice. In our studies we will surely encounter many difficulties. But as long as we are determined, are good at studying and honest about it, we can overcome our difficulties and can scale the heights in our vocations.

In raising the professional level in finance and accounting, there are many aspects to be studied, but we must grasp the key points. First, we must study the party's line and its general and specific policies, linking

financial and accounting work closely with the realization of the general task of the new period and consciously serving the realization of socialist modernization. Secondly, we must study Marxist political economy and understand the objective laws of a socialist economy. We must sum up the positive and negative experiences in the financial and accounting work of over 20 years and raise them to the theoretical level. Thirdly, we must learn financial and accounting vocational knowledge and raise our vocational ability. We must understand the principles of accounting, acquaint ourselves with the financial and accounting system and learn how to analyze financial and economic situations. The accountants must acquire a relatively higher theoretical level in their profession and greater organizational ability. Fourthly, we must study relevant economic knowledge. We must learn how to carry out scientific calculations in, and strict supervision over, economic activities and their effects. If the financial and accounting personnel in the factories do not understand relevant production knowledge and the processes of production, supply and marketing, and if the financial and accounting personnel in the commercial stores do not understand relevant knowledge concerning commodities and the process of circulation, then they cannot possibly do their financial and accounting work well.

In order to raise the level of financial and accounting work, from a long-term point of view, we must undertake overall planning, run the higher financial and economic institutions and middle financial and accounting vocational schools well, raise quality while increasing quantity and continuously foster a large group of newborn forces on the financial and accounting front embracing higher and middle financial and accounting vocational knowledge, so that there will be successors to fill the financial and accounting ranks. At present, it is more important to raise the vocational level of the present financial and accounting personnel. Presently, there are over one million financial and accounting personnel in the party and government organs and in enterprises and services throughout the country. They all have practical work experiences. As long as we grasp training firmly, we can enable them to raise their vocational level in a big way and the outlook of financial and accounting work will change greatly. The methods of training can be many and varied and can be suited to local conditions. Financial departments, responsible enterprise departments and large-scale enterprises can run financial and accounting cadre schools and financial and accounting training classes and arrange in a planned manner for groups of financial and accounting personnel to leave production and receive training by rotation. Spare time schools, correspondence schools and lectures by television and radio run by various localities and various departments can augment the financial and accounting specialties and create more opportunities for financial and accounting personnel to learn their vocations. The financial and economic institutions in various localities should render support in areas such as teachers and teaching materials. We must also advocate assiduous self-study, on-the-job training, teaching each other and letting the old lead the new. Young comrades should take the veteran comrades as teachers and consult the latter modestly.

Veteran comrades who have a higher professional level in finance and accounting should not forget to continuously study, sum up experiences and constantly improve their skills.

The key to raising the professional level of financial and accounting personnel lies in strengthening leadership. We must regard this work as an important link at present in strengthening economic accounting and improving economic management, place it on the agenda of leadership at various levels and have the leadership grasp the work personally. We must, in accordance with the actual situation, formulate plans and adopt measures to generally carry out one term of training for the present financial and accounting personnel within 2 to 3 years. We must establish a system of vocational inspection, carry out inspections at fixed intervals of the professional levels of financial and accounting personnel, confer technical posts in accordance with the state plan, and use the system as a basis for promotions, readjustment of wages, and rewards.

We believe that the broad ranks of financial and accounting personnel will definitely respond to the party and state call with actual action, stimulate an upsurge in vocational learning, emancipate thinking, study and train hard and render still greater contributions to the realization of the main tasks of the new period.

9335

CSO: 4006

NATIONAL ECONOMIC POLICY

IMPORTANCE, ROLE OF TAX REVENUE WORK OUTLINED

Beijing CAIWU YU KUALI [FINANCE AND ACCOUNTING] in Chinese No 2, 20 Feb 79
pp 9-10

[Article by Sui Zongji [7131 1350 4949]: "Earnestly Strengthen Tax Revenue Planning, Accounting and Statistical Work"]

[Text] The revenue department shoulders the glorious task of accumulating construction capital for the state. In order to organize tax revenue in a better manner and support the high-speed development of the national economy, an important aspect is to earnestly strengthen the tax revenue planning, accounting and statistical work.

I

Tax revenue planning, accounting and statistical work is an important component of taxation work, is an indispensable tool in organizing the state's tax revenue and is a necessary measure in implementing scientific management of tax revenue work. It provides a reliable basis for the leading organs to grasp the situation, formulate policies and guide work. We should note that this is not simply technical work but is important foundation work of the revenue department. The principle is clear. Without scientific planning and management and without precise statistical figures, our work will inevitably become haphazard and it will be impossible to carry out tax revenue work properly.

Proletarian revolutionary teachers have all along attached great importance to planning, accounting and statistical work. Lenin greatly emphasized calculation and supervision and regarded statistics as a supervisory tool. He raised the question of whether or not we wanted socialist statistics to the high plane of whether or not we wanted to consolidate the dictatorship of the proletariat and prevent a capitalist restoration. He incisively pointed out: "If we do not exercise comprehensive state calculation of, and supervision over, the production and distribution of products, then we cannot continue to preserve the political power and the freedom of the

laborers, and cannot prevent the restoration of the oppressive capitalist system." ("Selected Works of Lenin," Vol 3, pp 506-507). Chairman Mao taught us that we should "attend to the basic statistics and the main percentages" ("Selected Works of Mao Zedong," Vol 4, p 1332). Not only did he profoundly point out in theory the importance of planning and statistics, he even became personally involved in practice and carried out investigations and research, made use of basic statistical materials to formulate the line, general and specific policies for our party, led us in carrying out the great causes of socialist revolution and socialist construction and set himself as a glorious example for us.

Since the founding of the nation, tax revenue planning, accounting and statistical work has built up a complete and effective working system, scored great achievements and functioned as both staff officer and aide. But we should note that, in order to usurp party and state power and restore capitalism, Lin Biao and the "gang of four" publicly opposed socialist planning and statistical work. They advocated "the theory that statistics is useless" and "since everyone's last name is Public, what is the point of accounting?," and slandered the implementation of strict planning and management as "quotas in command." Their purpose was to attempt to disrupt the socialist economy and eliminate the state's comprehensive calculation and supervision of the national economy. Their sabotage and interference confused thinking, confused work-styles, confused the systems and confused the organs. As a result, some localities did not have complete statistical figures and did not keep abreast of the basic figures; they relaxed their planning and management and failed to bring the organizational and motivating role of tax revenue planning into play; and their planning and accounting organs were so weak that in some districts, the planning, accounting and statistical work was not handled by anyone, thus giving the elements of corruption and embezzlement an opportunity to bring about extremely serious consequences. We must thoroughly criticize the crimes of Lin Biao and the "gang of four," distinguish right from wrong on the question of line and eradicate their pernicious influence.

II

Tax revenue planning, accounting and statistical work occupies an important position in the entire tax revenue work and shoulders heavy tasks.

Tax revenue planning is the target of struggle for the revenue department within a definite period of time. In drawing up the tax revenue plan, we must follow the party's general and specific policies, abide by the economical and financial principles, do our work in a positive and reliable manner and truly bring its organizational and motivating role into play. Tax revenue planning possesses the quality of seriousness. Once fixed, it must be implemented conscientiously at every level, and effective measures must be adopted to guarantee its realization. In the course of implementing the plan, we must keep abreast of the rate of progress of revenue every

10 days, examine and analyze the reasons for excess or insufficient revenues every month and "have a good idea of how things stand." We must strengthen investigations and study, constantly keep abreast of the situation of economic development, analyze and study the trends of change, assess without delay the rate of progress of revenues and propose measures to solve the problems whenever we discover weak links. Practice proves that, in so doing, we can increase foresight, overcome guesswork and truly become the staff officer and assistant of the leadership.

Tax revenue accounting is an effective tool in correctly calculating and reflecting without delay the situation of tax revenues. Its method is to act in accordance with the law, calculate tax payment in accordance with the correct rate, supervise the laying up without delay of a sufficient amount of tax payments and ensure the safety of the state's tax revenue and notes. To accomplish this task, it is first necessary to do the foundation work of accounting well, which includes: laying up of tax payments, declaration of tax exemption, tax returns, the drawing and expenditure of fees in handling tax payments, entering of accounts, settling of accounts, examination and verification of tax bills and the drawing up of forms. Among them the two basic links are entering and settling of accounts and examination and verification of tax bills. Through the entering and settling of accounts, we can reflect without delay and in an all-around manner the levying, exemption, drawing and returning of taxes and the losses and cancellations after verification. We can reflect the entire process of how the levied taxes are laid up, and accordingly compile a complete and reliable accounting report. Through the examination and verification of tax bills, we can discover without delay problems in accordance with the tax revenue policy, safeguard the taxes from losses, guarantee the legality and accuracy of receipts and provide accurate premises for the entering of accounts. In the revised "System of Tax Revenue Planning, Accounting and Statistical Work in Industry and Commerce," clear-cut demands and regulations have been made on the various foundation works of accounting. We should conscientiously implement them and carry out accounting work well.

Tax revenue statistics are an important premise on which we keep abreast of the developments and changes in the sources of taxation, study and formulate taxation policies and draw up and examine tax revenue plans. In the new Long March, industrial and agricultural production is developing swiftly and the economic condition continues to change. These bring many new situations and new problems to tax revenue work. If we do not have basic statistical figures, we will not be able to keep abreast of the situation. Then, obviously, we will not be able to correctly formulate taxation policies, accurately draw up taxation plans, raise the level of management over taxation work and adapt to and promote in a better manner the development of the national economy. Chairman Mao taught us to have a clear understanding of the situation, a great determination and a correct method. We cannot achieve this if we abandon basic statistical analysis. We must have sufficient understanding of this. In view of the existing problems in the

current tax revenue statistical work, we believe that, to strengthen tax revenue statistical work, we must first treat statistical figures seriously and conscientiously, and conscientiously do the following: ensure completeness of data, accuracy of figures, have a unified line of action timely reporting. Only in this way can we bring the role of statistics into full play. Tax revenue statistics should reflect the situation as it is and should resolutely safeguard the authenticity of the statistical figures. It should be practical and realistic, consider one as one and two as two, and absolutely not resort to trickery, so that we can revive and give prominence to the fine practical and realistic tradition of our party.

III

Under the new situation, in order to conscientiously strengthen tax revenue planning, accounting and statistical work so as to meet the demands of the high-speed accumulation of capital, an important issue is to grasp well the building up of planning, accounting and statistical forces.

With the continuous development of the national economy, the task of organizing tax revenue becomes heavier day by day, and the demand made on tax revenue planning, accounting and statistical work becomes greater and greater. To solve this problem, we must of course rely on bringing the socialist enthusiasm of the broad ranks of planning and accounting personnel into play, improve the work methods and continue to raise the work efficiency. But it will not do not to have perfect organs and necessary personnel. We hope that the various localities will strengthen investigations and research, find out about the situation of the localities in terms of the establishment of planning and accounting organs and the equipment of planning and accounting personnel and, in accordance with the demands of the various tasks and in line with the principle of better troops and simpler administration, perfect the planning and accounting organs at various levels and reinforce the planning and accounting personnel as swiftly as possible. Also, we should maintain stability among the planning and accounting personnel and not transfer them rashly. We all know that tax revenue planning, accounting and statistical work is rather highly technical work having its own continuity. If we change the personnel too frequently, it will obviously be unfavorable to keeping abreast of the situation and accumulating data. Thus, we must emphasize stability among the planning and accounting personnel; in particular, we must strive to stabilize the backbone. Only in this way can we guarantee the normal operation of planning, accounting and statistical work.

We must grasp well the ideological and political education of the tax revenue planning and accounting personnel. On the whole, the planning and accounting cadres troops in the revenue department are good. During the serious interference and sabotage of Lin Biao and the "gang of four," the broad ranks of planning and accounting personnel were faithful to their posts, stuck bravely to principles, withstood the adversity, strictly

implemented the policies, laws and systems and carried out uncompromising struggles against acts of violating financial and economic disciplines. A large group of advanced model personnel emerged. However, there were also a few comrades who felt uneasy about their work, who did not abide strictly by the system and who were afraid of sticking to principles. Some people even practiced favoritism and carried out embezzlement, grafted and misappropriated the taxes and took the criminal road. Thus, the revenue departments in various localities should further strengthen the ideological education of the planning and accounting personnel and educate them in how to love their work, carry out tax revenue planning, accounting and statistical work for the revolution, and render still greater contributions to organizing the state's financial revenue. All our planning and accounting personnel should abide strictly by the system of personal responsibility, strictly guard the state's classified information, set good examples, be models in observing the financial and economic disciplines and consciously prevent and boycott the corrosion and influence of bourgeois ideology. We should strive to be honest in performing our official duties and be bold in struggling against acts that violate the financial and economic disciplines. We must advocate learning our vocations assiduously for the revolution and equip ourselves well with basic skills. We must strive to attain the following: Understand the party's general and specific policies, become proficient in the rules set forth by the taxation policies, become acquainted with the economic conditions of our own localities, familiarize ourselves with the system of planning and accounting work and become proficient in the techniques of planning, accounting and statistical work. We must truly become tax revenue planning, accounting and statistical workers who are both read and expert. As long as we study assiduously, are cautious and conscientious and quietly immerse ourselves in hard work, we will definitely achieve even greater results.

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CSO: 4006

ASSESSMENT OF TECHNICAL TITLES IN ACCOUNTING DISCUSSED

Beijing CAIWU YU KUAIJI [FINANCE AND ACCOUNTING] in Chinese No 2, 20 Feb 79
pp 1, 19

[Article by Qing Cheng [1987 2052]: "Some Opinions on the Assessment of Technical Titles for Accounting Personnel"]

[Text] In the "Regulations on the Functions of Accounting Personnel" revised and issued by the State Council, a chapter was added on the "technical titles" of accounting personnel, which clearly defined the conditions for conferring technical titles and the ratification procedures. This inspired and spurred the accounting personnel on to conscientiously learn their vocations and strive to do their work well. At present, some units are carrying out experimental work on assessing technical titles for their accounting personnel. Toward this issue, I would like to express some yet immature views for the purpose of study and reference.

The "Regulations" stipulated the conditions for conferring technical titles on accounting personnel. In addition to this ideological and political condition of supporting the party's leadership and of enthusiastically serving socialism, there are different vocational conditions set forth for accounting personnel, assistant accountants, accountants and chief accountants. My understanding is that there are three points. The first is professional knowledge, which requires general, specific and higher professional knowledge in financial accounting, and for the chief accountants, a comparatively higher professional knowledge of economic accounting is required. The second is working ability, which requires the ability to shoulder general financial accounting work, the ability to independently shoulder major financial accounting work, the ability to organize the financial accounting work of a general economic unit and the ability to organize and lead the economic accounting and financial accounting work of a large or medium scale economic unit. The third is working experience; with the exception of not making this a requirement on individual accounting personnel, the others are required to be proficient in financial accounting, to have years of working experience and to have comparatively rich working experience. These three vocational conditions of professional

knowledge, working ability and working experience stipulated by the "Regulations" are the criteria for assessing the technical titles of accounting personnel as well as the demands on the accounting personnel. We should follow this basic spirit in doing the work of assessing the technical titles of accounting personnel well.

We must integrate the work of assessing the technical title of accounting personnel with the establishment of a system of scheduled assessment of accounting personnel. The working ability and working experience of the different categories of accounting personnel can be appraised by the masses and examined and approved by the leadership. As for professional knowledge, mainly the professional knowledge of the accounting personnel, assistant accountants, accountants and chief accountants, the method of vocational assessment (examination) is proposed. Through vocational assessment, we can more objectively and more specifically understand the breadth and depth of the accounting personnel's grasp of professional knowledge. In our assessment, we can appropriately take into consideration the record of formal schooling and the years of work of the accounting personnel. But for those who have special skills in the vocation and who have made extraordinary contributions in work, there will be no limitations as to the record of formal schooling or the years of work. We must avoid the tendency to "look at the number of years and not at contributions, or look at the years of work and not at the level of work."

How should we assess the professional knowledge of the accounting personnel, and what kind of professional knowledge should the accounting personnel be equipped with? Financial accounting work is comprehensive work and demands are made on the many aspects of the professional knowledge of the accounting personnel. Our accounting personnel must have sufficient understanding on this point. In accordance with the stipulation of "work duties" in Chapter 2 of the "Regulations," the accounting personnel should emphasize the mastering of the following four aspects of professional knowledge: (I) the basic knowledge of financial accounting, which includes financial management, the principles of accounting, professional accounting and analysis of economic activities; (II) the basic knowledge of economic management and banking, with emphasis on the necessary knowledge for understanding how the financial accounting departments handle the various aspects of economic relationships both internally and externally; (III) the basic knowledge of production techniques, confined to their own trade; and (IV) concerned party and state policies and laws, financial and economic systems and financial and economic disciplines. Only by having basic knowledge in these aspects can the accounting personnel bring their roles of reflection, supervision, analysis and promotion into play. Of course, regarding the level of accounting personnel, the realm of professional knowledge required can be narrower and the contents simpler. Generally speaking, those who have the vocational level of a graduate of the middle vocational school and who also have undergone a certain period of job training can take part in the assessment of accounting personnel. Regarding the chief accountants and accountants, in addition to the above-stated four

aspects of basic knowledge, they are required to have a grasp of political economy and the principles of economic accounting. With the development of our country's modernized socialist construction, all the accounting personnel should gradually study the modernization of financial accounting work (which includes the use of electronic computers) and understand some methods of foreign financial accounting work.

The assessment of technical titles for accounting personnel is important work. We must strengthen leadership over it. Although assessment and conferring of titles on the accounting personnel and assistant accountants can be carried out in the units, considering the fact that there are not too many accounting personnel in each enterprise, there may be difficulties in carrying out the tasks separately in the various enterprises. Thus, I suggest that the responsible enterprise department grasp this work well.

(I) Through the assessment of technical titles, we must make the accounting personnel establish a sense of honor and a sense of responsibility in doing financial accounting work well. The various technical titles symbolize not only the honor of the accounting personnel, but also the responsibility of the accounting personnel. They manifest the limits of authority and the obligations of the accounting personnel. Some comrades might say, I have done financial accounting work for years, I am already one of the accounting personnel. Why is assessment necessary? I believe that, under the condition in which the state has made "accounting personnel" a technical title for accounting personnel, we cannot assume that all comrades who do financial accounting work are "accounting personnel."

We must bestow definite limits of authority and responsibility on the various categories of accounting personnel and it is even more imperative that we provide the necessary work conditions to the chief accountants and accountants, so as to bring the proper role of technical titles as encouragement and incentive into play. (II) Through the assessment of technical titles, we must launch well the work of training accounting personnel who are working. The enterprise and the responsible enterprise department can organize in a planned manner the study of relevant courses within the designated vocational study time, select and send experienced accounting personnel to give lectures, assign study texts and carry out examinations at different stages. If conditions permit, the financial department and the responsible enterprise department can also compile a set of vocational training programs (like the summary for review of the entrance examination for institutions of higher learning) for the working accounting personnel, so as to set a scope and requirements of study for the working accounting personnel. (III) Through the assessment of technical titles, we must be able to encourage the advanced, urge the backward on and raise financial accounting work a step higher.

The financial and accounting front is a broad front, having over 1 million accounting troops shouldering glorious and arduous tasks in modernized socialist construction. The effort to mobilize in a big way the enthusiasm

of the accounting personnel in various aspects is a question that requires attention from every quarter. The assessment of technical titles is a necessary measure in urging the accounting personnel to study and work well and in mobilizing the enthusiasm of the accounting personnel. We must launch ideological and political work, vocational training work and organizational work well, and, through the assessment of technical titles for accounting personnel, whip up an upsurge of assiduously learning the financial accounting vocation and striving to do financial accounting work well.

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CSO: 4006

NATIONAL ECONOMIC POLICY

TWO METHODS OF KEEPING ACCOUNTS EXPLAINED, ASSESSED

Beijing CAIWU YU KUALI [FINANCE AND ACCOUNTING] in Chinese No 2, 20 Feb 79
pp 29-32

[Article by Li Hongshou [2621 7703 1108]: "A Talk on the Addition-Subtraction Method of Keeping Accounts and the Credit-Debit Method of Keeping Accounts"]

[Text] To realize the four modernizations, we must develop the socialist economy at high speed and must strengthen economic management, economic accounting and take economic results into consideration. The method of keeping accounts is an important link in accounting. We must conscientiously study, sum up our experiences and continue to improve it, and make it more perfect to meet the needs of developing the socialist economy.

Our country's traditional method of keeping accounts is the cash receipt and payment method of keeping accounts. Until the late Qing Dynasty, when Western accounting was brought in, many industrial and commercial enterprises of relatively large scale took up Western accounting and used the credit-debit method of keeping accounts.

After the founding of new China, on the basis of continuing to use the old accounting techniques and methods, we learned the experiences of the Soviet Union, armed ourselves with Marxism-Leninism-Mao Zedong Thought and conducted criticism and reform of the old accounting system. As for the method of keeping accounts, most people still used the credit-debit method of keeping accounts. After 1964, in line with the principle of making the method of keeping accounts concise and popular and easy to learn and understand, our country's broad ranks of financial and accounting personnel created the addition-subtraction method of keeping accounts, which was first used in the commercial departments and later popularized among the industrial and commercial enterprises. Now I wish to talk about some questions concerning the addition-subtraction method of keeping accounts and the credit-debit method of keeping accounts.

In order to explain the merits and demerits of the two methods of keeping accounts, I will first briefly introduce their contents.

(I) The Addition-Subtraction Method of Keeping Accounts

The addition-subtraction method of keeping accounts is a method of keeping accounts that takes as its theoretical basis the objective laws of the movement of funds, adopts the method of double entry of accounts and employs "addition" and "subtraction" to reflect the economic activities and changes of funds. To adopt this method, it is necessary to divide in a fixed manner the enterprise's accounting subjects (that is, the account headings) into the two major categories of "obligated funds" and "sources of funds." Then, their accuracy can be checked in accordance with the sum of addition and subtraction recorded in the concrete accounts and in accordance with the balanced formula of "the grand total of obligated funds use" = "the grand total of the sources of funds." Since the changes of funds caused by all kinds of activities inside an enterprise are manifested in the forms of "addition" and "subtraction," thus, using "addition" and "subtraction" in keeping accounts can directly reflect the actual outlook of the changes in the recorded accounting subjects in the objective economic activities. For instance, we record "addition" for increases of cash and "subtraction" for reductions of cash; this is consistent with general concepts and is concise and easy to understand.

In accordance with the principle that the sum total of the obligated funds is equal to the sum total of the sources of funds, in an economic undertaking that involves changes in addition and subtraction of only one category of accounts between the obligated funds and the sources of funds, then we should record "addition" and "subtraction" separately in the concerned accounts of that category; in an economic undertaking that involves simultaneous changes in addition and subtraction of both categories of accounts, then we should record "addition" and "subtraction" in both categories.

The rules of keeping accounts in the addition-subtraction method of keeping accounts can be summed up as follows:

If addition and subtraction are carried out simultaneously in the two categories of accounts, then the two categories must be equal: if there are additions and subtractions in the same category of accounts, then the additions and subtractions must be equal.

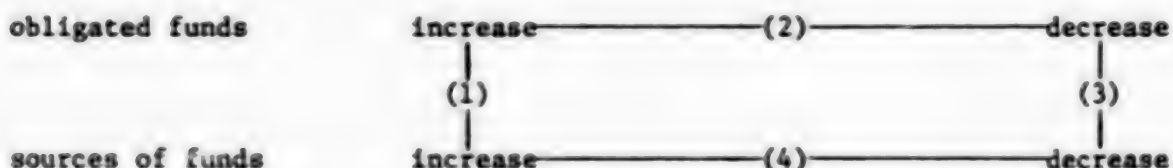
As for the examples of accounting subdivisions in the addition-subtraction method of keeping accounts, please see the "chart showing examples of accounting items and comparisons between the subdivisions in the addition-subtraction method of keeping accounts and those in the credit-debit method of keeping accounts [at the end of this article]. From the subdivisions in the chart, we can see that the changes of funds that take place in the various economic undertakings do not go beyond the following four situations:

(1) When the obligated funds for an item increase, then the sources of funds of the item simultaneously increase, as in subdivision 1 (the simultaneous increase of the two categories of accounts);

(2) when the obligated funds for an item decrease, then the sources of funds of the item simultaneously decrease, as in subdivision 3 (the simultaneous decrease of the two categories of accounts);

(3) when the obligated funds for an item increase, the obligated funds for another item decrease, as in subdivision 2 (the increase and decrease in the same category of accounts);

(4) when the sources of funds of an item increase, the sources of funds of another item decrease, as in subdivision 4 (the increase and decrease in the same category of accounts). The above-stated changes of funds can be shown by the following diagram (the figures in the diagram are the figures of the subdivisions):



(II) The Credit-Debit Method of Keeping Accounts

The credit-debit method of keeping accounts can correctly reflect the cause and effect of the movement of capital and its influence on the financial situation of an enterprise. The cause of capital movement means the origin of the capital (which is no more than from the reduction of certain obligated funds or from the increase of a certain source of funds). Its effect on the financial situation of an enterprise is to cause the reduction of certain obligated funds and the increase of a certain source of funds. The effect of the movement of a fund means the destination of the fund (which is no more than increasing certain obligated funds or reducing a certain source of funds). Its effect on the financial situation of an enterprise is to cause the increase of certain obligated funds and the reduction of a certain source of funds. The recording of the movement on capital is to record the income of funds on the right side of the account (called the credit side) and at the same time record the outgo of funds on the left side of the account (called the debit side). Because the movement of capital means that there is income and outgo, and that these are equal, then the accounting subdivisions are such that when there is debit there also is credit, and they must be equal.

In keeping accounts, we must use accounts to reflect the cause and effect of the movement of funds. The accounts should be divided into opposing left and right sides. The accountant uses the debit side to represent the left side and the credit side to represent the right side. He records the movement of a fund separately on the left side of the concerned account (one or several accounts) and on the right side of another concerned account (one or several accounts). In accounting, this is called debit X X account, and credit X X account. This is its accounting subdivision.

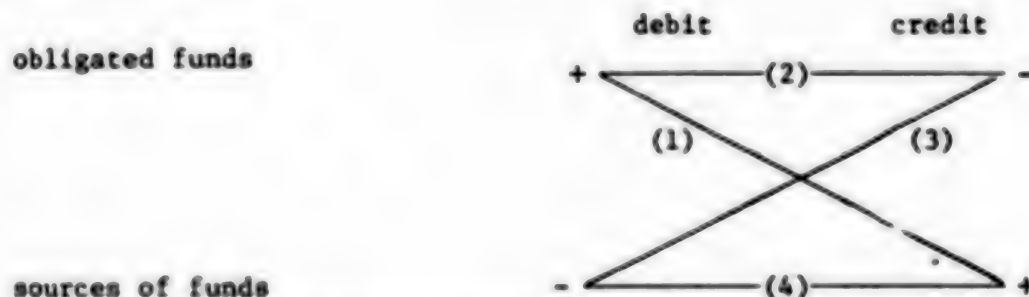
The two words debit and credit do not carry any meaning. They are only two accounting symbols representing the left side or the right side, just as the letters x and y in algebra, which are often used to represent two unknown numbers, are of no particular significance.

The credit-debit method of keeping accounts combines the increase of obligated funds with the reduction of sources of funds (they are both capital outlay), which are separate categories in the addition-subtraction method of keeping accounts, and calls that an item of the debit side, and combines the reduction of obligated funds with the increase of sources of funds (they are both capital income) which are separate categories in the addition-subtraction method of keeping accounts, and calls that an item of the credit side.

Please see the appended chart for examples of the accounting subdivisions of the credit-debit method of keeping accounts. Summing up the subdivisions listed in the chart, there are no more than the following four situations:

- (1) debit increase of obligated funds
 credit increase of sources of funds
- (2) debit increase of obligated funds
 credit reduction of obligated funds
- (3) debit reduction of sources of funds
 credit reduction of obligated funds
- (4) debit reduction of sources of funds
 credit increase of sources of funds

In every subdivision, the debit is equal to the credit, and can be shown by the following diagram (the figures in the diagram being the figures of the subdivisions):



The above is a brief introduction to the contents of the two methods of keeping accounts. In the following, let me talk about their merits and demerits.

(III) The Merits and Demerits of the Addition-Subtraction Method of Keeping Accounts

The merits of the addition-subtraction method of keeping accounts are that it is concise and popular, and easy to learn and understand. But some points are not really easy to understand. For instance, the subdivision of depreciation is not easy to understand, and is not straightforward.

The demerits of the addition-subtraction method of keeping accounts are:

- (1) It has "simultaneous increase and reduction" as well as "increase and reduction." This is unlike the system of "when there is debit there must be credit, when there is credit there must be debit, and debit is equal to credit" under the credit-debit method of keeping accounts, which subdivides the accounts into two opposing sides, showing clearly a right side and a left side, and making it easy to maintain a balance.
- (2) Balance of differences is not as simple and clear as overall balance. From the appended chart, we can see that, in the credit-debit method of keeping accounts, both the debit side and the credit side have 309,750 yuan. We can see immediately that there is a balance on both sides. However, in the addition-subtraction method of keeping accounts, a balance of differences is required:

Increase of obligated funds - reduction of obligated funds

300,200 yuan - 950 yuan = 299,250 yuan

Increase of sources of funds - reduction of sources of funds

308,800 yuan - 9,550 yuan = 299,250 yuan

- (3) In dividing the accounting subjects into the two categories of sources of funds and obligated funds, some subjects are listed rather arbitrarily--for instance, the listing of the subject of depreciation under the category of sources of funds is rather arbitrary, and so is the listing of it under the category of funds in possession for use. It is neither a subject belonging to the category of sources of funds nor a subject belonging to the category of obligated funds. It is rather a subject regulating the obligated funds.

The subject of depreciation is originally a subject of reduction in the value of fixed assets. But to list it under the category of obligated funds always ends up reducing the "fang-yu-e" [square remaining numbers], which become negative remaining numbers. Thus, under the addition-subtraction method of keeping accounts, for the convenience of keeping accounts, it is listed under the category of sources of funds, where it always ends up increasing the square remaining numbers, which become positive remaining numbers.

(4) A subject with a common character cannot be used. For instance, in settling accounts, "other expenses and incomes" must be divided into "other sums that should be received" and "other sums which should be paid." "What should be received" and "what should be paid" reflect a pair of contradictions in an interrelationship and, under certain conditions, can be mutually transformed. The receipt of more debt than is due will turn "what should be received" into "what should be paid"; the payment of more than is due will turn "what should be paid" into "what should be received." For instance, a procurer borrows in advance a travel fee of 100 yuan before he goes on a business trip. When he returns, he submits his expense account, which shows that the actual expenses on the trip are 120 yuan. Before we return the 20 yuan which he first put in, a negative sum of 20 yuan (that is, the increase of a [square] 100 yuan and the reduction of a [square] 120 yuan produce a negative sum of 20 yuan) will appear in this subject of "other sums that should be received" under the category of obligated funds. This will become a subject under the category of sources of funds. Under the addition-subtraction method of keeping accounts, the fixed division of subjects into either the category of obligated funds or the category of sources of funds is only a relative one and not an absolute one. The fixed division into categories cannot truly be fixed. Otherwise, negative numbers will appear which will reflect that, while the accounts are fixed, the quality has changed.

(5) Proofs are more complicated. Although the addition-subtraction method of keeping accounts is easy to learn, since we add for an increase and subtract for a reduction, in drawing up a certificate for the transfer of accounts and a general form for certificates for the transfer of accounts, we need to have four columns: "increase of obligated funds," "reduction of obligated funds," "increase of sources of funds" and "reduction of sources of funds," which make the squaring of accounts relatively more complicated, whereas under the credit-debit method of keeping accounts, all we need are two columns (debit, credit). In particular, in the drawing up of multi-column cost account-transfer forms, the additions and subtractions of "sources of funds" and "obligated funds" will double the number of columns, waste more time and cause much inconvenience to the accounting personnel.

(IV) The Merits and Demerits of the Credit-Debit Method of Keeping Accounts

The merits of the credit-debit method of keeping accounts are that it reflects the principle of double entry of accounts and reflects the situation that when there is debit there must be credit, and debit is necessarily equal to credit. The subdivision of debit and credit into the left side and the right side is clear. The overall balance can be seen immediately. Every accounting subdivision not only manifests the objective law which states that there is inflow and outflow in the movement of funds, and the inflow must be equal to the outflow; it also closely integrates the internal relationship of the left side and the right side in the account with the internal relationship of the inflow and outflow in the movement of funds. The left side and the right side of every account form a unity of opposites, and the left sides and the right sides of all accounts also form a unity of opposites.

Thus, an entire, strict and scientific system of accounting is established. It simplifies the method of balance of differences, in which four cases of addition and two cases of subtraction are necessary, which must be conducted according to the subjects as categorized in the addition-subtraction method of keeping accounts, into a direct method of balance in which only two cases of addition are necessary, and which does not need to be conducted according to the subjects as categorized. In this way, it greatly simplifies the account books and makes the daily accounting work more convenient. If we equate the addition-subtraction method of keeping accounts with the direct method of addition, then we can equate the credit-debit method of keeping accounts with the method of multiplication. If we equate the addition-subtraction method of keeping accounts with arithmetic, then we can equate the credit-debit method of keeping accounts with algebra.

The demerit of the credit-debit method of keeping accounts is its vague implication. But it is not like the addition-subtraction method of keeping accounts, which has the two words addition and subtraction in all its accounts. Take, for instance, the accounting subdivision for the cost of sale of the finished products. Under the addition-subtraction method of keeping accounts, if it establishes the subject of cost of sale, it has to record addition of cost of sale and subtraction of finished products; if it does not establish such a subject, and records directly into the subject of sale, then it has to record subtraction of sale and subtraction of finished products. However, under the credit-debit method of keeping accounts, although the subject of cost of sale does not belong to the subject of sale, it does not need to change its direction in keeping accounts, depending upon whether or not it establishes the subject of cost of sale. It is simply debit of sale or cost of sale, and credit of finished products.

The credit-debit method of keeping accounts is brought in from abroad. Some people hold that it is not popular and easy enough to be understood, and that it is difficult to learn and difficult to use. But up to the present, this method is still generally employed by various countries throughout the world. Science and technology is the wealth which mankind creates together, and is not confined by "nationality." Also, whether it is difficult or easy is not a major problem. If a scientific subject is very accurate and very important, then, however difficult it is, we should learn the subject. Moreover, the credit-debit method of keeping accounts is not difficult at all. We only need to unify the increase of obligated funds with the decrease of the sources of funds as debit, and unify the increase of the sources of funds with the decrease of obligated funds as credit. The method of keeping accounts should be easy to learn and easy to understand, but it definitely is not something that can be interpreted without real understanding, or that can be understood without learning. A graduate student in a university said that he learned the addition-subtraction method of keeping accounts. Later, he read a book on the credit-debit method of keeping accounts. After some thought, he understood it very quickly.

Also, the credit-debit method of keeping accounts has already lost its original implication and terms have become symbols standing for the left and right sides in an account. At the same time, in our socialist society, its theoretical basis is no longer the equation of assets and liabilities to capital, but is the question of obligated funds to the sources of funds, and is no longer a question of covering up for the capitalist exploitation. Why can we not improve it and make it popular and easy to understand? The world generally uses the Gregorian calendar, so we also adopt the Gregorian calendar, and we have changed our metric system into the "public system" to be at one with the world, so why can we not use the credit-debit method of keeping accounts?

(V) My Several Viewpoints

I believe that, in accordance with the policy of letting a hundred flowers blossom and a hundred schools of thought contend, at present, under the circumstance in which the industrial and commercial enterprises are widely using the addition-subtraction method of keeping accounts, we should adopt the following measures:

(1) In writing articles, compiling lecture notes and editing books, we should bring forth both methods of keeping accounts. The publishing houses should also accept manuscripts on both methods. Only through comparisons and discriminations can we make improvements.

(2) In their lectures, teachers should also lecture on both methods of keeping accounts and talk practically and realistically about the merits and demerits of both, allowing the students to discriminate between the two, so as to be able to apply them in actual work in the future.

(3) In running training classes, we must allow the new financial and accounting personnel to learn the credit-debit method of keeping accounts. Only after they have learned the credit-debit method of keeping accounts can they discuss the merits and demerits of the two methods, and not "simply say what other people say."

In short, we must further emancipate our thinking, be more courageous, come up with more ideas and accelerate our pace. We must adopt a practical and realistic attitude in studying, discussing and finding out which method of keeping accounts is indeed better and more convenient, which method is favorable to strengthening enterprise management, which method is scientific and which method is strict. We must emancipate our minds in our discussions and must persevere in telling the truth; what is good is good, and what is not is not, and we must not say what we do not mean. This will be of great benefit to developing the subject of accounting, strengthening enterprise management and realizing the four modernizations.

Chart Showing Examples of Accounting Items and Comparisons Between the Subdivisions in the "Addition-Subtraction Method of Keeping Accounts" and the "Credit-Debit Method of Keeping Accounts"

Accounting Items	The Addition-Subtraction Method of Keeping Accounts				The Credit-Debit Method of Keeping Accounts			
	Funds in possession for use		Sources of funds		Debit Side		Credit Side	
	Increase	Decrease	Increase	Decrease	Debit Side	Credit Side	Debit Side	Credit Side
1. The allocated fixed assets	Fixed assets 300,000		State funds 300,000		Fixed assets 300,000		State funds 300,000	
2. Cash drawn from bank	Cash 200	Bank deposit 200			Cash 200		Bank deposit 200	
3. Payment of estimated depreciation fund 50%		Bank deposit 750			Depreciation fund 750		Bank deposit 750	
4. Squaring of month's profit			Profit 8,800	Sale 8,800	Sale 8,800		Profit 8,800	
Total	300,200	950	308,800	9,550	309,750		309,750	

GENERAL ECONOMIC INFORMATION

UPCOMING EMPLOYMENT OBJECTIVES, ARRANGEMENTS DISCUSSED

Beijing ZHONGGUO QINGNIAN BAO in Chinese 7 Jul 79 p 1

[Report on interview with the relevant responsible person of the State Labor Bureau, by a correspondent of this publication: "How to Arrange the Employment of More Than 7 Million People This Year?"]

[Text] The disposal of the problem of fitting manpower in employment is an important task in the readjustment, reform, rectification and uplift being carried out in the national economy. It is also a question engaging the full attention of unemployed youths and their parents. For this reason, a correspondent of this publication has asked the relevant responsible person of the State Labor Bureau to answer some questions like the following.

[Question] In the arranging of personnel for employment this year, who are the objects and which are the working departments and units?

[Answer] In the Report on the Work of the Government presented at the Second Session of the Fifth National People's Congress, Chairman Hua said: "This year's plan is to employ over 7 million people in state-owned or collective-owned units." Among these 7 million and more people to be employed, except graduates from universities, colleges and middle schools and technical schools and veterans returning to the urban areas, and those personnel in whose behalf jobs need to be arranged in order to realize established policies, the bulk, as target of this employment arranging effort, shall consist of youths who are remaining in, or returning to, the cities of the country according to such established policy and who are waiting for employment, plus intellectual youths sent down to the countryside who are still waiting to be settled into production brigades and teams in the communes. Because the state is still facing difficulties at the present, we can therefore only follow the principle of "solving the problem on hand through uniform planning" by arranging employment according to appropriate proportions among the people waiting for it in

the various parts of society. As for those youths waiting for employment still found in the streets, it is necessary to organize them to engage in collective production or useful social labor.

The direction of effort in the arrangement of employment this year is this: a part shall be recruited to work in units owned by all the people, a part shall be recruited to work in collective-owned units, and still another part to be put on reserve for natural reductions of personnel on occasions.

[Question] When is this year's worker recruitment work to begin, and what concrete methods are to be followed in this regard?

[Answer] This year's worker recruitment work is to be arranged by the labor departments and units of the various provinces, municipalities and counties themselves in accordance with their local conditions. Such work is generally arranged once a year, but in some localities, it may be arranged twice.

The recruitment methods to be followed will consist in overall examination of ethical, intellectual, as well as physical cultivation, and insisting on the principle of selecting the best and accepting the foremost. In doing so, our work will on the one hand benefit the uplift of the quality of the workers we recruit so as to adapt to the needs of the cause of our production and construction, and on the other hand serve to inspire intellectual youths and students in schools in their love for study and their struggle for advancement, so as to prevent the abnormal practice of allowing people to enter through the back door in our recruitment work.

[Question] How to carry out cultural examination?

[Answer] So far as the content of a cultural examination in our recruitment work is concerned, there are different requirements and different points of emphasis in respect to different objects of recruitment in different kinds of work and different jobs. In recruiting those for technical and artistic work, for example, an investigation of the registrants' expertise in such technical and artistic work must be made, in addition to a general cultural examination. There should also be some distinction in the requirement for passing a cultural examination by the fresh graduates from schools and by intellectual youths sent up to the mountains or down to the countryside. The criteria for such examination and investigation are formulated by the departments and units in charge of such matters in the various localities and enterprises in accordance with the different requirements, and they are then applied in a uniform, organized manner with the consent of the labor departments and units in those localities and enterprises.

In the execution of such examination and investigation work, it is imperative to carry out established policies. Once any abnormal practice of allowing people to enter through the back door or other illegal behavior is discovered, punishment shall be solemnly applied.

[Question] At present, the youths waiting for employment in not a few cities and townships have already joined street production teams, cooperatives, urban labor service companies and the labor arrangements of other units of similar collective enterprises. How should we look at the question as to whether or not they, too, may need to participate in the examinations of such recruitment, and also at the prospect that different cities and municipalities may do things differently?

[Answer] It is our view that, at present, it is permissible for the various localities to start from realities and adopt flexible approaches on the matter the way they did. We do not require "all of the same cut." What needs to be pointed out and emphasized is that, some years back, insufficient attention was paid to the matter of providing services to people and their living conditions in the cities because of the interference and sabotage of Lin Biao and the "gang of four." During the past 2 years, many cities have organized unemployed youths to provide just such social services. The results proved to be very good and they were welcomed by the masses. For example, there are now more than 500 street-administered child care centers in Shanghai Municipality which undertake absorbing half of the entrusted children of the entire city. There are also more than 400 mess halls that handle some 200,000 diners each day. And there are likewise repair service stations numbering over 700, and these make up more than half of the repair shops of the entire city. Since the beginning of this year, too, the Beijing Municipality has formed nearly 1,000 production cooperatives to do the processing work for the big industries and foreign trade, and also to serve the people and improve their living conditions in the city. But at the present there are still some cities which have not aroused enough attention in respect to this problem and cannot therefore fully adapt to realistic needs. There are not a few youths willing to engage in this type of labor; they should be vigorously supported and encouraged. In the meantime, it is also hoped that other youths can also recognize the important meaning of such service-providing enterprises to the construction work of the four modernizations, that they are happy to engage in such enterprises and devote themselves wholeheartedly to serving the people accordingly.

[Question] Starting from the ideological conditions concerning the question of employment on the part of the youths today, what are some of the views that should, in your opinion, be subject to rectification?

[Answer] We feel that the following three incorrect perceptions need to be rectified:

(1) People should not think that only working in the city can be considered as formally employed, or refuse to go if assigned to some place away from the city. Today, the number of cities with a population of over 1 million in our country occupies first place in the entire world. Therefore, in arranging employment, the leaders at the various levels must pay attention to finding outlets both in the cities and in the countryside.

They should do more things like the Red Flag Farm in the outskirts of Xiangtan, Hunan, did in the forming of combined agricultural-industrial enterprises that accommodate agricultural, industrial and auxiliary undertakings all at the same time in their attempt to supply supplemental foodstuffs to the cities and to serve exports and big industries. In the earlier stage, part of the cadres and masses harbored certain muddled concepts as if there could only be one way -- the way of the city -- when one began to try to open up more avenues for employment; this kind of thinking was highly partial. Facts prove that, if we do our best in setting up collective-owned bases for the production of agricultural and supplemental products in the outskirts of cities, we can not only make up the shortage in supply of supplemental foodstuffs for the cities, but also arrange large numbers of youths for employment. Therefore, the vast ranks of youth should all establish the kind of thinking that suggests that "good sons and daughters should aim at going to places," so that they may strive to go to places of hardship and create their enterprises there, and thereby seek to carry out their energetic struggles in order to build our country into a prosperous and thriving socialist power.

(2) We must not think only working at enterprises owned by all the people can be considered as formally employed, whereas working at collective-owned units would be merely "a temporary arrangement" or "a peg lower than others." We must tell the youths that, under the present conditions in our country, collective-owned enterprises constitute an important component of our national economy and are marked by such characteristics as requiring little investment, yielding fast results, and expediting the mobilization of the masses. According to available statistics, families engaged in collective enterprises in our country now make up three-fourths of all families engaged in industrial enterprises of the entire nation already; the employees and workers of such collective-owned industrial enterprises make up nearly one-third of all employees and workers in the country's industrial enterprises, whereas the production value of these collective-owned industrial enterprises makes up one-fifth of all production value of the country's industrial enterprises. Among the people's daily amenities, an overwhelming majority in the three aspects of food, clothing and utility is produced by collective-owned industrial enterprises. In order to build for the sake of the four modernizations in our country today, the development of collective-owned enterprises constitutes an even more important strategic measure, which also serves as an important channel for solving the problem of employment for urban youths. It is bound to play an increasingly invaluable role in the development of production and facilitation of people's livelihood.

However, we must also see that, during a given period, many people are going to have different kinds of views toward collective-owned enterprises. This has to do with the fact that our policy concerning such collective-owned enterprises during some years in the past had not been stable enough and not reasonable enough. More importantly, this is also inseparable

from the interference and sabotage of Lin Biao and the "gang of four" against the party's policies in general. Today, the party and the government have already begun to pay attention to problems of this kind, and also to intensify their efforts in the conduct of investigation and study as well as in the gradual readjustment of policies. We are convinced that, along with the unfolding of the first battle in the construction work of the four modernizations, the superior characteristics of the collective economy, such as self-responsibility for gains and losses and more rewards for more labor, are bound to demonstrate themselves more and more clearly.

(3) We must not one-sidedly think that the state has its obligation to arrange employment for us, but the youths themselves do not have any need to serve the people or any duty to make a contribution to the state. In the past few years, some youths proved to be very choosy about the jobs available to them, single-mindedly thinking of finding a profession where somehow "the work may be lighter, the conditions may be better, and the pay may be higher." Because of this, they would forgo several offers without proceeding to pick one actual assignment, and prefer to wait at home for several years. Such kind of thinking and behavior is totally wrong. We have conducted relevant investigations and discovered that there exists a situation where the structure of the social economy has become disproportionate in all cities of the country. That is to say, on the one hand, the number of employees and workers on the industrial front has become one-sidedly large, while, on the other hand, the many professions and enterprises that are intended to serve the cities themselves can never meet their need to satisfy the development of construction work and the livelihood of the people. Therefore, in our arrangement for employment this year, we shall follow the principle of attending to "the short front first, the long front later" by giving priority to satisfying the needs of professions and enterprises in the cities such as commercial enterprises, service enterprises, repair and remodeling enterprises, travel and tourist enterprises, public utilities, gardening and landscaping services, etc. This demands that we adopt measures, on the one hand, to readjust certain economic policies of the various service enterprises in order to encourage people to engage in such service enterprises and, on the other hand, we must educate the youths to make sure that they start from the interest of the state and the people and correctly treat the interrelationship between their individual ambition and interest and the needs of the people, so that they would be willing to go wherever they are assigned and thereby joyfully make their greatest possible contributions in behalf of the construction work of the four modernizations and the people at their posts there.

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GENERAL ECONOMIC INFORMATION

SHANGHAI STATE REVENUES EXCEED TARGETS IN FIRST HALF YEAR

Shanghai JIEFANG RIBAO in Chinese 8 Jul 79 p 1

[Article by Correspondent: "Shanghai Financial Income Exceeds Targets in First Half Year"]

[Text] Under the direction of carrying out the policy of "readjusting, restructuring, consolidating and improving" the national economy, the various fronts in Shanghai have energetically launched a movement to increase production and practice economy. Based on the essential prerequisites of developing production and having thriving markets, the financial income for the first half of this year has already fulfilled 46.2 percent of the target set down by the state at the beginning of the year, thus fulfilling the goal required by the state that in the first half year 46 percent of the entire year's task be completed.

The fine condition of fulfilling the financial income tasks is due to the launching of a widespread movement on the economic front throughout the municipality to increase production and practice economy with high output, good quality, many varieties and low consumption. Industrial production has risen stably as a result of overcoming difficulties of insufficient coal, electricity and raw materials and making great efforts to unearth hidden potential. Industrial output value increased by 6.1 percent compared with the same period last year. Of the 84 principal products, the output of 61 increased over the same period last year. The consumption of raw materials in products continued to fall compared to last year. The costs of comparable products in Shanghai's industrial enterprises from January to May fell by 1.7 percent compared with the same period last year. Commercial sales volume in the first half of this year increased 15.9 percent compared with the same period last year, the retail turnover of social commodities was up by 24.8 percent, and the income from the development of professions such as publishing, cinema and post and telecommunications increased markedly.

This year the various levels of party committees in Shanghai have paid extremely close attention to financial work. They have conscientiously studied vigorous methods for increasing revenue and economizing on expenditures. The leadership of the municipal light industrial bureau

convened a meeting of 36 responsible persons and finance officers of major factories whose financial income is one-half that of the bureau, to transmit to them the directives of the leadership of the Central Committee on financial work, to publicize the financial situation, and to demand that enterprise leaders grasp both production and revenue and arrange measures to increase production and practice economy. They also sent cadres to the factories separately to help the enterprises to meet the various targets. In addition, the working personnel of the finance departments have utilized the method of economic activity analysis to help enterprises make detailed accounts, unearth hidden potential, and strive to increase both output and revenue, thereby contributing to broadening the source of income and reducing expenditures. According to the figures of the four directly subordinate subbureaus in joint local state industry, 289 investigation reports and proposals for increasing production and unearthing potentials have been made to the enterprises and various supervisory departments by financial specialists.

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GENERAL ECONOMIC INFORMATION

STUDY OF STATISTICAL THEORY TO MEET NEEDS OF MODERNIZATION

Beijing JINGJI YANJIU in Chinese No 4, 20 Apr 79 pp 45-49

[Article prepared for publication by the Bureau of State Statistics]

[Text] Certain Questions on Statistical Theory Raised at the Symposium Called by the Bureau of State Statistics

In order to have the study of statistical theory and the training of statistical cadres meet the needs of the socialist modernization, the Bureau of State Statistics called a symposium on the teaching of statistics and the planning of scientific research in statistics, December 1978, at E-mei County in Sichuan Province. The symposium was attended by representatives of 17 institutes and universities and of a section of the provincial and municipal bureaus of statistics. After due discussion, the symposium drew up preliminary programs for the compilation of statistical textbooks, statistical research work, the training of statistical cadres and the publication of statistical material. In coordination with the elaboration of these programs, all participants approached the discussions with a free mind, broke the taboo of "forbidden areas," spoke without any inhibitions and followed the principle that practice is the only criterion for truth, when holding preliminary discussions on important questions in the field of statistical theory and raising certain important theoretical questions. The participants felt that the present discussions were merely a beginning and expressed the demand that following this symposium further discussions on all these questions, and on other important items, be carried on in order to raise the level of our country's statistical theories, and to have the study of statistical theories and the actual statistical work serve more effectively the building up of our country into a strong, modern, great socialist state. In the following we present a summary of the questions set forth at the symposium:

1. Is Statistics One Field or Does it Consist of Two Fields of Study? Can Socioeconomic Statistics and Mathematical Statistics Exist Side by Side?

Is statistics a field of applied mathematics or a field of the social sciences? This question has been argued for a long time every since the

initiation of statistics. Since the establishment of our government the majority of comrades engaged in statistics in our country have been of the opinion that the study of the quantitative aspects of social phenomena in the socialist society is a field of the social sciences. There are also some comrades who believe that present international scientific circles acknowledge only one field of statistics, that field is mathematical statistics as a branch of applied mathematics, which is also a necessary scientific method and technique of scientific research carried out in our country with regard to the natural sciences and the science of socioeconomics. They were also of the opinion that "statistics" in present-day China consists merely of the work experience by the statistical departments of the government in collecting social and economic statistical data and that it is not a field of science.

At the present symposium the majority of comrades were of the opinion that mathematical statistics and socioeconomic statistics are two fields of science with different targets and different character, and that both must exist simultaneously. Mathematical statistics has as its target of research the quantitative relationship of stochastic phenomena; it is a branch of applied mathematics. Socioeconomic statistics takes as its research target the quantitative aspects of socioeconomic phenomena; it is a field of the social sciences. Objectively, as long as there is the practice of socioeconomic statistics, this will quite naturally generate a theory of socioeconomic statistics to guide it. Socioeconomic statistics and mathematical statistics are two independent (but interrelated) sciences, they mutually stimulate one another and develop jointly. For 20 years our country's statisticians have done a great deal of work in socioeconomic statistical research, but as far as research in mathematical statistics is concerned, there has been only halting progress, especially when it comes to using the various methods of mathematical statistics to study social phenomena. This was considered "bourgeois stuff" and therefore taboo. In the past few years great advances have been achieved abroad in applying the methods of mathematical statistics to the study of the operation and management of enterprises and the study of national economies, but in our country nobody dared to carry out such studies. This has been extremely detrimental to any effort to raise the level of statistical theory and to all actual statistical work in our country. To meet the needs of socialist modernization, it was proposed that not only financial and economic institutes and colleges seriously study and substantially raise the level of socioeconomic statistical pursuits, but that mathematical statistics be also accorded its rightful position. All departments engaged in statistical work must further improve their methods of applying mathematical statistics. To avoid confusion all participants suggested to changing the title of the presently available "Principles of Statistics," which actually deals with socioeconomic statistics, into "Principles of Socioeconomic Statistics."

Some comrades were of the opinion that statistics is one field of the sciences which is applicable to social as well as natural phenomena, and that

mathematical and socioeconomic statistics are two branches of this one science. The "Principles of Statistics" has as its objective the explanation of principles and methods common to both mathematical statistics and socioeconomic statistics.

2. Is Socioeconomic Statistics a Science Studying Theories of Statistics or a Science Studying Rules Governing Socioeconomics?

In the past many of our comrades engaged in statistical work were of the opinion that statistics is a science that studies the rules of socioeconomics (or the quantitative manifestations of the rules governing socioeconomics). At the present symposium many comrades suggested that statistics is a science that deals with methodology. They believed that the science of statistics and statistical work must not be completely ranked as one and the same. Statistical work is investigating the quantitative aspects of social phenomena and their rules, while the science of statistics is investigating the methodology of quantitative relations of social phenomena. If the science of statistics studies socioeconomic rules, then writings in the field of statistical science must write on socioeconomic rules, and in fact what book on statistics has not dealt with socioeconomic rules! If one says it is a study of the quantitative manifestations of these rules, then every kind of social science in its application of statistical data thereby becomes a part of statistics.

3. Is the Socioeconomic Statistics a Study of Quantitative (Related to Qualitative) Aspects of Social Phenomena or is it a Study of Quantitative as Well as Qualitative Aspects?

There is one opinion which believes that socioeconomic statistics is studying quantitative as well as qualitative aspects. Statistics must comprise the three stages of dealing with social phenomena: investigation, orderly arrangement and analysis. Statistical analysis is the last stage of statistics and in analyzing, no matter what kind of thing we are dealing with, we must not only look at its quantitative aspects but also at its qualitative aspects. Statistics cannot merely study quantitative relations. In their actual work, statistical departments are required to include in their reports statements on quantitative data, on general conditions, an analysis of the figures and their suggestions, or in other words: "data used, an analysis of usage, contradictions discovered and suggestions for improvement." Only in this way can statistical work be as fully effective as it is supposed to be, to be a good staff officer and aide to the leadership of the party and the state and to the broad masses. It is a biased and erroneous viewpoint if anyone believes that the science of statistics is only studying quantitative aspects and that statistical work merely consists in handling figures, adding and subtracting them.

Another opinion believes that socioeconomic statistics is closely tied to the quality of things in its study of the quantitative aspects of social phenomena. Because every field of science has its peculiar research target, the particular contradictions in things, it is the special point of the

statistical science to observe the socioeconomic phenomena from a quantitative standpoint. Of course, quantity can never be separated from quality; quantity to some extent induces qualitative changes. It is for this reason that quantity is bound up with quality, but we must not, out of this consideration, deny that the specialty of the science of statistics is the study of quantitative aspects. As to the alleged need for statistical workers to penetrate deeply into the internal rules of things in their comprehensive analyses, thus involving them not only in the quantitative aspects of the socioeconomic phenomena but also in the qualitative aspects, even extending their involvement to the superstructure, all these areas belong to the sphere of political economics and other related fields of science. The actual work of statistical departments is "a joint struggle in many fields of science," and not something that can be solved with the means of only the one field of socioeconomic statistics. The students of statistics and the statistical cadres are to study not only statistics, but must first of all study philosophy, political economics, as well as the natural sciences and should be knowledgeable in production technology.

4. What is the Relationship Between Investigative Research and Socioeconomic Statistics? In the Methods Applied in Statistical Work, What is the Relationship Between Comprehensive Statistics and Type Model Investigations and Other Methods?

Many comrades were of the opinion that the research that Comrade Mao Zedong had always advocated is an excellent tradition of our party and that this excellent tradition must be preserved and developed in our research and in the building up of our country's science of socioeconomic statistics, but opinions differed as to the relationship between the research that Comrade Mao Zedong advocated and socioeconomic statistics. One opinion suggests the two should be integrated into one to create one field of "statistics of social investigation." Another opinion suggests that the investigative research ideology be made the guiding ideology in socioeconomic statistics, to make type model investigations into a method of socioeconomic statistics and that these can be set forth within the socioeconomic statistics without the need to establish a separate field of "statistics of social investigation." A third opinion has it that Comrade Mao's research ideology is a development of Marxist-Leninist epistemology which is of universal significance in the cognition of social and natural phenomena. As regards the investigative research of social phenomena it pays attention not only to quantity but also considerable attention to quality as it lays stress on the vital conditions of the actual situation. If it is forcibly made into a part of the science of socioeconomic statistics, it would on the one hand disrupt the system of statistics, which has the study of quantitative aspects as its object, and on the other hand it would lower the significance of Comrade Mao's ideology of investigative research and thus be improper. In the present set-up of the curriculum it would be possible to have two courses, namely "Investigative Research of Socioeconomics" and "Theory of Socioeconomic Statistics."

What is the relationship of Various Methods in the Actual Work of the Statistical Departments? One opinion has it that comprehensive statistics and type model investigations should be integrated and the method to be applied must be determined according to the particular task and the particular object, using in a flexible way the "skill in wielding the 18 kinds of weapons." Another opinion believes that the many years of practical experience have established as the main task of the statistical departments the job of providing comprehensive data, and in collecting data the main method used was that of comprehensive report forms, while at the same time using the type model investigations and also other methods. At present too little attention is being paid in actual statistical work to type model and other methods of investigation (including sample investigation) which actually should be energetically promoted. The view held by some people in the past that sampling investigations are "bourgeois rubbish" is erroneous. We must rehabilitate sampling investigation and use it extensively in such areas as the investigation of agricultural yields, family livelihood and testing of product quality.

5. How to Improve the System of Statistical Indices? How to Reflect Economic Effectivity? How to Produce Good Overall, Well-Balanced Statistics?

Many comrades were of the opinion that at present socioeconomic statistical studies are giving too little attention to the study of the theory of statistical indices. In actual statistical work, there are a great number of problems (which are in need of serious study and gradual improvement) with respect to the way the present system of indices reflects socioeconomic effects and the proportionate relations in the national economy etc. These require conscientious study and gradual improvement.

Many comrades also suggested that in view of the serious dislocations in the proportionate relations of our country's economy brought about by the obstructive interference and sabotage of Lin Biao and the "gang of four," which have not yet been completely mended, it is henceforth also necessary to perfect the regular statistical analysis of the economic balance in our national economy. It was suggested that the "input-output" methods, and other methods appropriate to the actual conditions of our country, be studied and used to strengthen work in this direction, thus to benefit our national economy by having it develop systematically and in a well-proportioned and rapid way.

6. What Indices Would Best Reflect the Speed of Development of our National Economy? How to Treat and Utilize Total Output Value, Net Output Value, End Product Value, Production Indices, etc.?

The problem of speedy development is a political question which has the serious attention of the leadership in party and state organs at all levels and the attention of the masses, but there are differing views on what indices to apply to reflect realistically the speed of development. One

opinion has it that the main index should be "the value of the end product," and that the total output value and the net output value should have supplementary functions, because the end product value is an index that can relatively well reflect the true conditions of production development and does not contain that great an amount of duplicate computations as total output value, and furthermore is being used by the majority of the countries of the world thereby facilitating comparisons with other countries. Another opinion believes that the "end product value" index lacks a theoretical basis and it would be more advisable to use the total output value index, and then use net output value and end product value indices as supplementary. A third opinion suggests to reflect the speed of development by compiling production indices according to the methods of the Western countries.

On the question of how to eliminate the factor of changing prices in the comparison of value fluctuations, some comrades expressed the opinion that the "fixed prices" used since the establishment of our government, viewed over a long period of time, are "variable prices" which have been changed three times in the past 20-odd years and will be changed again in future. Furthermore, this method of "fixed prices" is in many respects not conducive to the development of production technology. They suggested to change to a use of prevailing prices in these calculations and at the same time compile commodity price indices to eliminate the factor of changing prices and to facilitate comparisons.

7. How to Detect and Properly Deal With the Contradictions in Socioeconomic Statistical Work? How to Give Full Play to Statistical Legislative Measures?

Many comrades were of the opinion that it was correct in past research in statistical theory to point out the superiority of socialist social statistics, but due to the influence of metaphysical ideology the contradictions in statistical work were researched very little or not at all. In the statistical practice in our country over the last 30 years, many contradictions have evolved in statistical work. For instance, as regards the objectivity of statistical figures it was believed in the past that under the conditions of socialism when all means of production had reverted to public ownership and due to the "consistent nature of our morality," there could not be any false or spurious statistical figures. Actually, it has been proven that the public ownership of the means of production and the socialist consciousness of the masses have provided excellent preconditions for the objectivity of statistical figures. However, due to the influence of bourgeois ideology and other reasons, it is still a problem that must be given serious attention, namely how to ensure the truthfulness and reliability of statistical figures and keep them from subjectivist interferences. Furthermore, the system of organizing statistical work, how, due to the special requirements of having all statistical data collected throughout the entire country and of having uniform specifications and methods throughout the country, to achieve centralized uniformity and furthermore, under centralized, uniform guidance, give full play to the active enthusiasm of the

various localities and departments, to have everybody join in doing a good job at statistical work, that too is an important problem and the experiences in this respect must be intensively summed up.

In order to adequately deal with all kinds of contradictions in socioeconomic statistics, many comrades expressed the opinion that legislative measures must be initiated and perfected and that provisions should be incorporated into the legal system of the socialist state to ensure the truthfulness of statistical figures, to prohibit false reporting and to determine the official responsibilities, powers and duties of those concerned with statistical work, etc. This is most necessary.

8. How to Treat Dialectically the Relationship of Service and Supervision in Statistics? How to Develop Statistics as an Effective Service and a Supervisory Control in the Course of the Four Modernizations?

Quite a number of comrades pointed out that there had been many formulations for the object of statistical service, for instance, statistics are to serve planning, to serve the central work of the party, to serve the social revolution and construction, to serve proletarian politics, to serve the class or production struggle, to serve the three revolutionary movements of scientific experimentation, etc. Exactly how to define this function is a matter that deserves serious study. Many comrades believed that according to the demands posed by the new era, the future tasks of statistical work must be to serve the construction of a strong, modern, socialist country.

With regard to the relationship of service and supervisory functions, many comrades believed the two are not at all opposites that confront each other, but are a dialectic unity. The statistical departments reflect the objective conditions accurately and on time, analyze these conditions by the "one divided into two" method, assess achievement positively and expose contradictions, thus they are effective as a service and also effective as a supervisory control. Statistical work is a powerful weapon in the hands of the leadership organs of party and state at all levels in effecting supervisory control over and struggle against fraudulent practices and violations of law and discipline. Statistical personnel are firmly maintaining the truthfulness of statistical figures and engaging in struggle against certain leadership personnel who commit fraudulent acts. In doing so, statistical personnel are not at all violating the principle of centralized party leadership in statistical work. On the contrary, they are defending and upholding this principle. For instance, the statistical personnel of one province were conducting a struggle for several years against the misguided actions of a deputy secretary of the provincial party committee in willfully altering statistical figures; that in actual fact was--on the part of the statistical personnel--acting to uphold and defend the leadership of the provincial party committee. The action of Lin Biao and the "gang of four" in their all-out efforts to destroy the truthfulness of statistical figures and their prohibition of statistical supervision were absurdities that must be criticized. In the future, in the course of realizing the

four modernizations and for the purpose of having our national economy develop systematically, well-proportioned and at great speed, of firmly upholding the socialist direction and struggling against all kinds of unhealthy trends and evil practices, it is very necessary to advocate the firm spirit of courageous struggle, seeking truth on the basis of objective facts, and it is equally necessary to give full play to the service and supervisory functions of statistical work.

9. How to Deal Correctly With Foreign Statistical Theories and Methods?

How to Learn Analytically and Critically From Foreign Countries?

Some comrades reviewed our past experiences and lessons gained from learning from foreign countries. In the early years of our government, it had been necessary to learn from Soviet statistical science which was then under the leadership of Stalin. Our achievements at that time were conspicuous, but in several areas there prevailed the defective practice of mechanically imitating and copying. Later these defects were overcome to some extent. However, during the time when Lin Biao and the "gang of four" were on the rampage, all this work was turned into a target for criticism and bogged down in the pitfall of the other extreme. While it is completely in order and necessary to criticize the reactionary points in the statistical theories and methods of the capitalist countries, it is wrong not to discriminate and to adopt an attitude of negating everything. This in fact amounts to blindfolding yourself and impeding the progress in statistical science in our country. In the future we shall engage in a conscientious study of foreign things, adopt the essence, reject the dross and integrate them into the realities of our country, thus rectifying the blindness and onesidedness that we displayed in the past.

10. How Best to Integrate Theory and Practice? What are the Positive and Negative Experiences Since the Establishment of our Government?

Some comrades pointed out that we should conscientiously sum up the rich positive as well as negative experiences made in the course of our country's almost 30 years of statistical work, during which time we experienced two large turns of events. In the matter of integrating theory and practice, we have had two trends, one was not to pay attention to any integration with practical experiences, a trend which prevailed in the early days of our government. The other was to simply transplant the momentary slogans and methods of actual practical work into theory, or to accept a practical work experience as a universally valid rule. Both these trends obstruct the development of statistical theory and practice. In future we must use Marxism-Leninism and Mao Zedong Thought as our weapon, subject experiences to extensive democratic discussion, accept practice as the only criterion for truth and summarize historical experiences, raising them to the level of theory by seeking truth on the basis of objective facts.

There were also some comrades who pointed out that statistical theorists must improve their ways of penetrating deeply into the realities of life

and to learn from the masses, especially to learn from advanced workers and advanced collective groups. For instance, good examples for statistical work following the mass line were established when in many of our country's enterprises, communes and working teams special positions were created for personnel to integrate with the masses and have the masses participate in statistical work (to collect or complement primary data), to have the masses use statistics (to promptly publish statistical figures to compare and assess competitions), to have the masses exercise supervisory control over statistics (check the truthfulness of statistical figures). We must sum up the good experiences that have passed the test of practice because these experiences will replenish and enrich the content of our statistical theories.

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GENERAL ECONOMIC INFORMATION

'NET OUTPUT VALUE' TO REPLACE 'GROSS OUTPUT VALUE' AS ECONOMIC INDICATOR

Beijing JINGJI YANJIU in Chinese No 4, 20 Apr 79 pp 50-51

[Article by Wan Dianwu [8001 0368 2976]: "Proposing 'Net Output Value' as the Main Economic Indicator"]

[Text] In the wake of the developing capitalist industrial production, Sweden, in 1830, for the first time used "gross output value" as a statistical indicator. In 1850, the United States began to calculate its statistics on the basis of gross output value. Later, England, Germany, Russia, Canada and other countries followed using the same indicator. However, due to certain weaknesses in this index figure, several countries later changed over to the use of "net output value" or some similar indicator. In 1932, the United States used "value-added output" as indicator (that is new value added to the work object, i. e. net output value plus a depreciation charge for fixed assets). After World War II, many countries used this indicator. At present, in the United Nations' "Yearbook of Industrial Statistics," which includes 101 countries and areas, 87 of these calculate "gross output value," 81 "value-added output" and 80 calculate both indicators simultaneously.

In our country's statistics, both the "gross output value" and the "net output value" are to be found. However, in actual practice, the "gross output value" is frequently taken as the main indicator and the "net output value" is seldom used. To assess the conditions of our country's industrial enterprises, we have eight economic-technical indices and although there is no "gross output value" among these, the average labor productivity, profit rate, rate of use of circulating capital, etc. are all calculated with the use of "gross output value." It is therefore not surprising that some comrades in our factories say that gross output value is like a supersovereign of all the eight economic-technical indices. Departments of the party and the government also often use the size and growth rate of the gross output value for comparisons in their work concerning various branches of the economy or the various areas of the country, for instance in such statements as: the gross output value of the Beijing industry surpasses that of Tianjing, but is only about equal to two-fifth of that of Shanghai. To take the gross output value in this way as the main economic indicator has generated

many problems in theory as well as in practice. In the fifties this touched off public discussions among departments working in economics and among economic scholars on the advantages and disadvantages of "gross output value." It is not without good reason that some economic departments are continuing to explore this problem during the last 1 or 2 years.

In our actual work we are becoming increasingly aware of the many deficiencies of the "gross output value" when used as an indicator to examine and assess industrial performance, and that it would be better to use the "net output value." Here when we talk about taking "net output value" as the principal economic indicator we mean: first, to take it as main indicator to analyze the speed of economic development, the ratio of industry and agriculture in the economy, the ratio of accumulation and consumption and for the comparison of the scale and speed of economic development in various areas. Secondly, to take it as main indicator in our evaluation of industry. This does not mean of course to abolish "gross output value" as an index, but merely that it is unsuitable to be our principal economic indicator.

The reasons for using the "net output value" instead of the "gross output value" as our principal economic indicator are the following:

Firstly, the "net output value" conforms more accurately to reality than the "gross output value." The present "gross output value" contains many duplicated figures. The industrial "gross output value" is in general double the size of the "net output value." Socialist production mainly pays attention to the additional material wealth newly created for the country within a certain period of time. In this sense indication by "net output value" is more precise than by "gross output value." Examined by branches of industry, we find that the "gross output value" is comparatively small in raw materials industries such as coal, lumbering, mining, petroleum, salt and the steel industry, and that it is comparatively large in the processing industries because there it contains the embodied labor used in the initial industrial process. The average labor productivity of a worker calculated on the basis of "gross output value" and taking the 1978 figures for Beijing municipality as example, was: in the textile industry over 23,000 yuan, in the engineering industry over 13,000 yuan, but only 2,000 yuan in the coal industry (here we have the element of somewhat low prices). To weigh against each other the work performances in the various branches of industry would of course not conform with reality. In the same way using the "gross output value" for various kinds of economic analyses would not reflect economic conditions as accurately as when using "net output value." For instance, using "gross output value" in calculating the ratio of industry to agriculture in our country on the basis of the 1977 figures would give a ratio of 75 to 25, and give the impression that we had already achieved a remarkable degree of industrialization. When using the "net output value" the ratio would be 58 to 42. Viewing the overall economic conditions in our country's vast number of villages and towns, it is obviously the latter ratio which comes nearer to the actual conditions. Examining the actual reasons we find that since it is mainly living labor that is involved in the various branches of agricultural production, such as planting

and growing, animal husbandry, forestry, fishery, etc., and very little embodied labor enters into the products of these branches, it is only natural that its gross output value cannot be high. It is not like this in the processing industry. The basis here is the embodied labor used in the initial industrial process. For instance, in producing flour from wheat, the production process is very simple but the "gross output value" of a flour mill with 200 or 300 men frequently exceeds the "gross output value" of wheat of a whole county.

Secondly, the advantages of using the "net output value" are greater than using the "gross output value" in assessing industry, and the disadvantages are less. At present the following conditions have become apparent when measuring industrial operations at various places, using "gross output value" in the comparisons: In some factories parts were originally manufactured in the factory itself but in order to raise the gross output value they simply bought the parts from outside and assembled the items. To bolster the gross output value at the end of the month, or especially at year's end, some factories would rush raw materials into the manufacture of semifinished products or large items, leaving certain parts to accumulate in stock. The engineering industry, textile industry and light industry of our country has felt a widespread shortage of raw materials, "cannot get their fill," and as a result of the pursuit of "gross output value" much raw material has been wasted and the contradictions in industrial production aggravated. Of course, the "net output value" could also lead enterprises to disregard economy in labor force but this problem could be solved by a strengthening of labor management, by instituting a capital fund and bonus system in the enterprises and by other methods.

Thirdly, to use "net output value" as the main economic indicator is much more in accordance with the principles of economics. The objective of socialist production is to satisfy continuously the material and cultural needs of the state and the people at an ever increasing rate. Only after subtracting that part of the production material that replaces whatever has been used up and consumed, do we get the true amount of newly created material wealth. Even operating an enterprise owned by the people as a whole, we must also deduct from the "gross output value" the labor expended in producing the basic raw materials to arrive at the amount of newly created value produced by that enterprise. If we do not carry out these deductions and add up the "gross output value" of all factories into a "gross output value" of the entire industry of the country, we have included large duplications in this calculation which cannot represent the amount of newly created wealth.

Fourthly, to adopt the "net output value" as the economic indicator is quite feasible in actual practice. In 1978 Romania replaced the "gross output value" with the "new output value" as principal economic indicator to assess the performance of its enterprises. Reward funds for staff and labor welfare were also issued on the basis of "net output value" achieved. In our country's present statistical system we have already the "net output value"

indicator. To change over to the use of "net output value" as the main economic indicator would not at all involve an excessive amount of extra work for our statisticians. It is true though, that the "gross output value" is easier and quicker to figure out at the end of a period by merely multiplying the production with the unit price, and the "net output value" calculation is less advantageous as far as timeliness is concerned because it has to await the arrival of a number of accounting figures. However, accuracy must take priority over timeliness because it is a most fundamental demand that every kind of economic indicator must be accurate and scientific. Furthermore, after strengthening the work of calculating the "net output value" and according to the principle that practice makes perfect, improvement could also be achieved as far as timeliness is concerned.

Of course, no economic indicator can be perfect in every way, "among two good alternatives, we must choose the more important one." By and large it is more reasonable to use the "net output value" as economic indicator rather than the "gross output value." This is my opinion which I here present for discussion and as a reference for those in the relevant leadership positions.

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GENERAL ECONOMIC INFORMATION

ECONOMIC FORM OF SOCIALIST ECONOMY EXAMINED

Beijing JINGJI YANJIU in Chinese No 4, 20 Apr 79 pp 52-57

[Article by Liu Mingfu [0491 2494 1133]: "The Economic Form of the Socialist Economy"]

[Text] The question of reforming the system of economic management is now being discussed in our country.

The question has already been raised as to whether every business enterprise must adopt the organizational form of separate companies of various kinds according to the principle of coordination among specialized departments. Some comrades have proposed that the principal organizational form for enterprises should be powerful specialized or integrated companies with unified manpower, finances, and material, unified production, supply, and marketing, and a single chain-of-command.

The question of a managerial system by which each business enterprise must manage its enterprise according to a system of independent economic accounting, has also already been proposed. Some comrades have suggested that the core of the system of independent economic accounting in enterprises must be that each enterprise must itself bear responsibility for profits and losses and that the interests of each employee and worker must be closely linked to the quality of management of that enterprise.

In that case, what is to be the relationship among the various enterprises? How are we to organize the division of labor and cooperation throughout our entire society? How are we to establish on the basis of the inherent internal relationships between the various enterprises a coordinated entity of economic management throughout our entire society and achieve a highly effective system of economic management?

This is inevitably linked with the question of the economic form of our country's socialist economy.

The transition from the economic form of a natural economy to the economic form of a commodity economy has been a great step forward in mankind's history. It is the inevitable outcome of the continuous development of

relations between social productive forces and social division of labor and cooperation.

If we leave aside the relationship between different classes and distinguish the different economic forms merely by whether division of labor and cooperation has been well developed and whether exchange relations play a pivotal role then mankind's history would show right up to the present only these two economic forms, the natural economy and the commodity economy.

Apart from these, our mentors of Marxism have predicted that as a consequence of the extensive development of productive forces and arriving at the high developmental stage of socialism, there will be born an economic form that will not use money as medium of exchange, namely an economic form of product exchanges. However, this type of new economic form cannot appear at the low stage of socialist society of our country with its comparatively low level of productive force, and can certainly also not appear at the intermediate stage of development in the socialist society.

In that case, during the long period before us, exactly to what economic form must our country's socialist economy belong? Is it a natural economy or a commodity economy?

Since we have been restricted for a long time by the viewpoint that the means of production exchanged among the various enterprises in the system of ownership by the people as a whole must not be considered commodities, we were in actual fact not admitting that socialist economy is natural economy nor were we admitting that it was commodity economy. As we see it now, this understanding and this method of handling the question deserve our reconsideration.

1. Practice is the Only Criterion for Testing Truth

If we examine on the basis of our 30 years of practical experience whether to deny that our socialist economy has the character of a commodity economy is conducive to the development of productive force and conducive to giving full play to the superiority of the socialist system, we have to answer that it is not. Why?

First of all, ever since the appearance of the commodity economy, the process of social reproduction of the commodity economy comprises a process of circulation. Separated from the process of circulation, there could be no process of social reproduction. This is one of the most important differences between a commodity economy and a natural economy.

In the large-scale socialized production that we are engaged in, if there were no exchanges among the various individual enterprises, we would have no way of carrying out cooperation and also no way of carrying out social reproduction. However, because we did not recognize in the past the commodity economy nature of socialist economy, we could not avoid regularly

overlooking the inherent relationship between the circulatory process and the production process, and fail to arrange for comprehensive study and planning regarding production and circulation. As a result it was inevitable that many enterprises did not take exchanges as their objective, did not see as their objective the satisfaction of the needs of their trading partner, and consequently did not see as their objective the satisfaction of the needs of society, but frequently produced for production's sake. They did not let sales determine production, but frequently had production determine sales. As a result the goods produced were often not suitable for the market; on one hand certain products were overstocked and on the other hand certain articles were always out of stock. It meant that many enterprises ignored economy in labor and gave no attention to a careful study of how to produce the greatest useful value with the least expenditure of labor. As a result there were few commodities at cheap price and good quality but many of inferior quality and high prices. It was then also unavoidable that many who worked in the circulation sector of the economy did not pay attention to economy in circulation time and did not pay attention to careful study of how to satisfy the needs of society at the highest speed of circulation. As a result a transaction that required 1 dollar in the capitalist countries would require several dollars to accomplish in our country. Furthermore, much work done in the circulation process was done with great inconvenience to the masses.

Secondly, unlike the natural economy, the commodity economy involves borrowing and loaning. The borrowing and loaning that accompanies exchanges, the mutual supplementing and helping, constitute one of the great differences between a natural economy and a commodity economy. Credit relationships are of great benefit in speeding up the turnover of social capital, to raising the efficiency in the use of social capital and in helping speed up the process of social reproduction. We are engaged in large-scale socialized production and should of course have speeded up the circulation of social capital by every possible means for the purpose of helping speed up the process of social reproduction. However, because we denied in the past that a socialist economy has the character of a commodity economy we generally paid no attention to the circulation or the speeding up of the circulation of social capital. We did not give full play to the active function of banking operations and credit funds. Why was it that most of the capital for our business enterprises came from fiscal allocations and only a small part came from bank borrowing? It was because we were held captive by the ideology of self-sufficiency; we believed in having more independent capital and not to have to ask others for help. Now everybody has become aware that this method was not at all beneficial for attaining fullest efficiency in the use of social capital and not at all beneficial for the raising of the managerial quality in business operations. This is a good beginning. In agricultural loans the actual fact was that a disguised form of fiscal allocations was being practiced. In agricultural loans there was not only the situation in which loans were not being repaid but some people even suggested that all debts should be completely remitted. Can such an idea and such methods possibly raise the effectiveness of investments? Can they

possibly raise the managerial quality in the operation of the rural people's communes? Will they benefit the development of large-scale socialized production in the countryside? The advantages and disadvantages involved are well worth our continued consideration.

Thirdly, unlike the natural economy, there are rental relationships in the commodity economy. Renting and exchanging, supplementing and helping each other, that is one of the great differences between a natural economy and a commodity economy. Rental relationships are of great benefit for the economical use and fullest utilization of social wealth. If we had fairly well developed rental facilities, many items of low utilization ratio that would originally be purchased individually by the various units could be made to fully satisfy the social needs by means of rental arrangements and we could thereby also avoid the individual purchasing and the continuous and large-scale waste of social wealth.

However, because we denied in the past the commodity economy nature of the socialist economy, we of course paid no attention to the promotion or support of rental arrangements. Since we were held captive by the ideology of self-sufficiency, the general inclination of enterprises, businesses, government organs, schools and military units was to provide for themselves all kinds of motor vehicles, and they would rather have them stand idle--preparedness averts perils--than develop rental arrangements for motor vehicles and thus raise the utilization rate of these cars. At the same time many of our units have large numbers of little used large pieces of equipment, instruments and meters as well as many little used books and periodicals. They are used more or less the same way as, or even less than, the motor vehicles. However, there was not one responsible unit that would promote setting up rental arrangements. This is a huge waste of social wealth.

Fourthly, unlike a natural economy, there are many service facilities in a commodity economy. It is in the nature of exchanges of labor. Such exchanges supplement and assist the exchange of commodities. It is of great benefit in economizing and fully utilizing the social labor force. Social service occupations have today already become an urgent social necessity be they serving production, capital construction, business management work, daily life, or scientific and cultural affairs.

Why is it that in our country the social division of labor and mutual co-operation has been so little developed, so that many enterprises, businesses, government organs, schools and military units must provide everything they need themselves, have to be all-encompassing, have to be self-sufficient and never ask anyone for help? Why is there pressure to have "the factory serve society" and there cannot be "society serve the factory?" Precisely because in the past we denied the commodity economy nature of the socialist economy and we did not use our brains to organize labor service exchanges, which certainly was a great waste of the social labor force.

Fifthly, unlike a natural economy, a commodity economy has many trust and agency enterprises. For instance, entrusting an agent to buy or contract, to purchase and sell, to hire, to train, to investigate, to write, to draw, to calculate, to introduce, to design, etc. This is also a labor exchange

in nature, as well as a kind of division of labor and cooperative relationship. It is highly beneficial for raising the productivity of social labor and can also provide society with many conveniences.

Since in the past we denied the commodity economy nature of the socialist economy we naturally could not pay great attention to these matters. As a result, people had to attend to everything personally, every man struggled by himself, energy was wasted and efficiency went down. This was a tremendous squandering of social labor forces.

Sixthly, unlike a natural economy, there is in a commodity economy a very complex division of labor and cooperative relationships among the various individual economic units. The overall distinguishing feature is that the horizontal division of labor and cooperative relations are very numerous but the vertical command and control relations few.

In the past, due to our not recognizing that the socialist economy is a commodity economy in nature, we inevitably always neglected the inherent links between the various sectors in the course of social reproduction and one-sidedly emphasized purely administrative measures of control. As a result many necessary horizontal relations of division of labor and cooperation were severed, and many unnecessary vertical relations of command and control were continuously generated, thereby destroying many necessary horizontal relations by the many unnecessary vertical links. How could we in this way achieve a comparatively high level of economic efficiency in our reproduction process and in the circulation of social capital?

On the basis of our newly gained knowledge, we must now once more and in a new way attend to all the above-mentioned division of labor and cooperative relationships.

2. The New Long March Demands That we Change our Old Ideas

There is no doubt that in the course of the four modernizations our country's commodity production will certainly experience a great development.

The great development of commodity production has as its purpose to satisfy the needs of a greatly expanding foreign trade and the needs of a greatly expanding exchange of goods between urban and rural areas. To satisfy the livelihood needs of the people in the urban and rural areas is an obviously growing need.

As we have earlier already designated these three types of goods as commodities of trade, we all recognize that they must all be priced economically and be of good quality as well as appropriate for the needs. We all will also want to demand that all the production and commercial enterprises concerned with these three types of commodities observe the economic laws of the socialist commodity economy in doing a good job of business management, in giving attention to economizing in production time and circulation time.

However, there arises one question. The finished products must be of good quality. Management of the enterprises that manufacture these goods must conform with the economic laws of the socialist commodity economy. Some claim that since the many items of raw materials, fuel, other materials, meters, instruments and industrial equipment to manufacture the commodities are themselves not commodities for trade, we cannot demand that the enterprises concerned do a good job as to managing their production and circulation processes according to the economic laws of the socialist commodity economy, cannot demand of the relevant enterprises that they economize in labor and circulation time, and cannot demand that they be economically priced and of good quality as well as appropriate for the requirements. Would that be possible? Would such a method ensure that they would be fit to produce good finished products for trade? That would be metaphysical thinking, subjective onesidedness and unrealistic.

It must be emphatically made clear that since we shall in the future have to import from abroad large quantities of advanced technology and advanced equipment, we must from now on speedily raise our ability to repay the foreign suppliers. To achieve this purpose we must produce a sufficient quantity of export commodities that are economically priced, of good quality and appropriate for the requirements and that are highly competitive in the international market. In order to produce a sufficient quantity of export commodities that will be highly competitive in the international market, we must do a good job of the entire national production and circulation according to the economic rules of the socialist commodity economy, and we must make efforts to have our country gradually catch up with and even surpass the advanced world level of economy in production and circulation time. If we do not do that we cannot march on victoriously on our long march and we cannot establish our nation in the community of nations. Under no circumstances must this be dismissed light-heartedly.

3. Commodity Economy and Planned Economy are not Two Opposites

We must not set commodity economy against planned economy. A natural economy, not a planned economy, is the opposite of a commodity economy.

The difference between a natural economy and a commodity economy is that commodity economy is that form of economy where, on the basis of a fairly well developed division of labor and cooperation, the various production units can establish economic links with one other only through the exchange of money or commodities. In contrast, a natural economy is that economic form where there is a low level of division of labor and cooperative relationships, the various production units have no exchanges of money or commodities and therefore also no economic links to speak of.

Can a planned economy be established on the basis of a natural economy? It cannot. Can a planned economy be established on the basis of production exchanges at a time before the production force has developed to a stage not needing money as equivalent? Again, it cannot. In today's China, a planned

economy can only be established on the basis of a commodity economy. This is an unavoidable historical process and also an inviolable objective law. Why? Because if we discard exchange relations, there would be no way to establish division of labor and cooperation among the various economic units of present-day China and society could not be molded into one whole. There would be no state planning left to speak of. Because if we abandon the magnitude of value for commodities:

Firstly, we could not effect the various overall balances in the social reproduction process.

Secondly, we would have no way to examine the labor productivity in the society or to examine the various different economic effects. We would also have no way to effect distribution according to work and redistribution of funds according to different economic achievements.

Thirdly, we would not achieve the greatest saving in production and circulation time according to the demands of the law of pricing. We could not achieve production of the best goods with the least expenditure of labor. We could not provide society with an ever increasing amount of surplus products for an improvement in the people's livelihood and an expansion of reproduction.

Fourthly, we could not conscientiously utilize economic policies as regards customs revenue, interests, profits and pricing to direct and guide our various economic undertakings.

If we could not do all these things, there would be no more state planning worth being called that.

A planned economy can indeed be built up on the basis of a commodity economy, because in our country we have for a long time already carried out planned management in the enterprises producing what everybody already openly acknowledges are commodities for trade and in the circulation sector of the economy. Now we only want to expand the scope. We want to effect planned management, according to the economic laws of the socialist commodity economy, of the production and circulation processes concerning all the means of production which we originally called "non-trade commodities" and which are being exchanged within the system of ownership by the people as a whole. This can only bring advantages and no disadvantages. Besides, only by correctly utilizing the factors that give full play to the superiority of socialism, such as suitability and flexibility in the commodity economy and by managing the economy through direct and indirect planning, can we attain a superstructure and economic relations that will be even better suited to the development of our country's production force.

4. Commodity Economy is not a Special Feature of the Capitalist Society

The commodity economy has attained its unprecedented development merely in the capitalist society. However, commodity economy is not at all a special

feature of the capitalist society. It appeared already toward the end of the period of primitive communism, it existed in the slave society, in the feudal society, in semifuedal, semicolonial old China and in socialist China it is in the process of development.

The question is therefore not at all whether a commodity economy is in itself good or bad, but rather whether it is part of what kind of social production pattern and of what kind of ownership system, and what social class it is serving.

The commodity economy was not well developed in old China. In present-day China there are still 80 percent of the population who are semiself-sufficient farmers; it is still a country where commodity economy is not well developed. The historical task that faces us is certainly not to imagine that we can jump across that necessary historical stage, the vigorous development of the commodity economy, but rather how, by following the principle of seeking truth on the basis of objective facts and by observing the objective laws of economics, we can speedily develop a socialist commodity economy.

If the bourgeoisie can utilize the economic form of capitalist commodity economy to achieve an unprecedented development of the productive force, why should the proletariat not be able to utilize the economic form of a socialist commodity economy and achieve an unprecedented development? Of course, up to now we have not yet learned to utilize the said economic form, but we must have determination and confidence in learning to utilize it.

To guarantee the socialist character of our country's commodity economy we must conscientiously promote socialist democracy and always guarantee the working people their position as masters in every respect. We must never allow labor to become a commodity. We must conscientiously perfect the socialist legal system and resolutely struggle against any trend to have the cadres become a privileged class and certainly not allow the servants of society to change into the masters of society. We must also conscientiously nurture the socialist morality and customs and resolutely struggle against any activities that harm the public interests. We must prevent actions that benefit oneself at the expense of others or enrich oneself at the expense of the public from attaining their purpose. On this basis we must be willing to and capable of adopting from the examples of organizational forms, managerial systems, business methods, division of labor and cooperative relations in foreign commodity economies everything that is beneficial toward bringing into full play the superiority of our country's socialist system. We must start out from the actual conditions in our country and reform our system of economic management, our system of planning and our planning methods.

5. One Central Thought Must Govern the Reform of our System of Economic Management

What is to be contained in this central idea is a question that deserves our serious study. If we do not do that, how are we to reform?

Some tentative ideas on this point are as follows, they may or may not be suitable: On the foundation of a perfect socialist democratic system and basing on the economic laws of a socialist commodity economy and the principle of independent economic accounting for all enterprises, we must reform and build up our system of economic management, our system of planning and our planning methods; we must improve and strengthen the unified leadership of the party over economic work.

One point is most important in this connection. It is that we must clearly understand that our socialist economy is a socialist commodity economy. We must be adept at regulating our production through a planned, conscientious utilization of the law of value.

To clarify this understanding it might not be amiss here to study again the following chapters from the writings of our Marxist teachers without feeling bound by any onesided viewpoints:

1. "Currency cannot suddenly be abolished at one stroke. To abolish money, we would have to build up an organization for the distribution of goods to hundreds of millions of people,--that is a matter of many, many years."¹

2. What is circulation of commodities and what is not circulation of commodities? We must differentiate this as follows: "Speaking of commodity circulation, there are always two things required: commodities introduced into circulation and money introduced into circulation. 'Unlike direct goods barter, the circulation process is not concluded with the use value changing places and hands...'"² It is therefore only one item, the commodity, and one item, the money, that are involved in the circulation and that constitute commodity circulation. It is not necessary to differentiate as to whether the two sides involved in the circulation process are of different systems of ownership or belong to different independent economic accounting units.

3. What is commodity production and what is not commodity production? We must differentiate this as follows: Since "the so-called commodities production refers to a socioeconomic organization in which products are produced by individual, independent producers, at the same time each producer specializing in the manufacture of one particular product, it is necessary, in order to satisfy the needs of society, to have trading conducted in a market-place (the products thereby becoming commodities of trade)."³ It follows that commodity production takes place if only there is production for the purpose of exchange, for the purpose of satisfying the needs of society through exchanges. It is not necessary to differentiate as to whether the parties to the trade belong to different systems of property ownership or belong to different independent economic accounting units.

4. Marx stated long ago: "In the situation when the capitalist production method shall have been abolished, but the social production will still exist, the determination of value shall play a dominant role in the following sense: to regulate labor time and the distribution of social work among the various categories of production..."⁴ We therefore need not regard as two opposite the law of value and the law of planned, proportionate development.

If we examine our reforms under these viewpoints, our outlook will certainly be considerably widened and made to conform more with reality. The above ideas may not necessarily be appropriate. Please criticize my mistakes so that our studies of these problems may be deepened. I hope in particular that a great number of our comrades will launch further discussions.

FOOTNOTES

1. Lenin, "First Plenary Session of All-Russia Social Education Delegates" in "Lie-ning Quan-jí [The Works of Lenin]" Vol 29, p 331.

2. Marx, "Das Kapital" Ren-min 1975 edition, Vol 2, p 459.

3. Lenin, "Lun So-wei Shi-chang Wen-tí [On the So-called Market Question]" in "Lie-ning Quan-jí" Vol 1, p 77.

4. Marx, Das Kapital Ren-min 1975 edition, Vol 3, p 963.

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GENERAL ECONOMIC INFORMATION

VIEWS ON SOCIALIST PLANNED PRICE FORMATION

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[Article by Ji Zhengzhi [4764 2973 3112]: "Several Problems on the Fixing of Planned Socialist Prices"]

[Text] Today, when the reform of economic management has been placed on our agenda, the problem of socialist planned price formation has attracted the widest attention of workers in the field of economics and economic theories and lively discussions have been launched. To join in the discussion we publish here some incomplete viewpoints on the problem of fixing planned prices.

The price of a commodity is the monetary expression of its value; value is the basis of price. Price formation must be based on the social labor expended on the production of the commodity. All changes in price can be explained on the basis of the changes in value, otherwise the price level will lack an objective economic foundation. However, the actual price formation is furthermore influenced by the relation between supply and demand. If supply is adapted to demand, price will on the whole conform to value. If supply and demand are out of balance, the price will deviate from value. This may be so but in the final analysis value is still the backbone of price. Lenin pointed out: "Price is the expression of the law of value. Value is the law governing prices, that is the condensed expression of the price phenomenon."¹ Under socialism, prices for the main industrial and agricultural products are determined by the state in a planned way. The determination of planned prices is equally taking value as a basis (some comrades suggested taking the production price as a basis for determining prices, but the production price is a transformation of the value which in the last analysis is determined by value. To say that planned socialist prices take value as a basis is therefore stressing the essence). An important aspect in the state's promotion of the development of the national economy by consciously using the law of value is brought out by its planned determination of reasonable and economically well-founded prices. If the prices correctly reflect values and if the pricing policy correctly reflects the demands of the law of value, it will help determine and carry out the state economic plan. It will also help the reasonable adjustment of the

material interests among the central government, the local districts, the enterprises and the workers, the reasonable adjustment of relations between workers and peasants, and will be of important significance for strengthening economic accounting in enterprises, in the drive for economic efficiency and for raising the level of economic management.

Under socialism, what exactly should be taken as the basis for the determination of planned prices? Our overall viewpoint is: The basis must be the average production cost of the department with the addition of profits calculated at the department's average rate of profit over production costs, fully taking into consideration the average rate of profits on funds throughout society and the average profit rate on the department's funds to show consideration for the interests of different departments, at the same time differentiating between different conditions, giving earnest attention to using the law of value, to a certain extent and in a planned way regulating the relation of supply and demand for commodities through the raising or lowering of their prices, thus reflecting the needs of the entire society and the demand for the development of the entire national economy.

1. Production Costs are the Main Basis for the Determination of Planned Prices

Everybody knows that the value of socialist commodities is composed of the value of the means of production consumed in the course of production (C), the value of the means of livelihood used to satisfy the workers' personal needs (V), and the value of surplus products produced by the workers for society (M). The planned price of socialist commodities is composed of production cost and profit (which, also in the following, includes taxes). The production cost of a commodity reflects more or less the materialized labor and living labor (strictly speaking the necessary labor) expended in the course of production, in other words it is the combined C and V parts in the commodity value. Taxes and profits more or less reflect surplus labor, represented by the M part in the commodity value. This reveals that cost is the monetary expression of the most important part in the commodity value. To have price correctly reflect value depends to a certain extent on whether the production costs correctly reflect C plus V and whether the determination of the price has taken the production cost as its main basis. It is frequently due to this problem that many commodity prices are at present priced unreasonably. In our studies of the formation of planned socialist commodity prices we must therefore first of all study the production costs of commodities.

1. Production cost is the lowest economic limit for the determination of planned prices. In his discussion of capitalist commodity prices, Marx pointed out: "The lowest limit of a commodity's sales price is determined by the cost price of the commodity. If a commodity is sold at a price below its production cost, that part of the production capital that has been consumed cannot be fully replenished from the proceeds of the sale.

If this process is continued, the value of the advanced capital will disappear."² Cost is the lowest limit of price; this reflects an objective

demand of economic development and it is equally applicable in the determination of planned socialist commodity prices. Only by accepting cost as the lowest economic level in the determination of planned socialist commodity prices can the expenditure of materialized labor and life labor in enterprises obtain replenishment and can simple reproduction be maintained. Otherwise, not only will it be impossible to maintain simple reproduction, but the original capital will be eaten up, the level of livelihood of the workers will be lowered and the materialized labor and living labor cannot obtain its necessary replenishment. Seen from the standpoint of the individual enterprise, in case the price of a certain commodity is lower than its production cost, the state may even temporarily use part of the surplus labor from other enterprises or other commodities to compensate for the expenditure of materialized labor and living labor, but from the standpoint of the society as a whole the total price and total value of commodities are all the same. The price of commodities must therefore take the cost of production as the lowest economic limit.

To determine prices merely by the production cost of a commodity, on the one hand does not reflect objective reality and on the other hand is not in accord with the needs of society. Because the workers in the course of production are really creating surplus products and are providing the material conditions for the expansion of social reproduction and for the regular activities of departments not engaged in material production, this must be reflected in the price structure and prices must be determined by adding taxes and profits to costs of production. Through exchanges the value of the commodities are realized and capital is provided for the country's construction and for the continuous rise in the livelihood of the people.

There exists an organic link between production costs, profits and prices (taxes are also related to prices and profits but for certain periods the tax rate is fixed and levied according to sales without a direct relation to cost; we shall therefore leave them out of the discussion), and we cannot get away from costs in discussing profits and prices. Under conditions of stable prices, the reduction or increase of costs will correspondingly reduce or increase profits. With an unchanging profit rate, the lowering of costs will reduce prices and an increase in costs must raise prices.

At present we are faced with the following prominent problems in our firm determination to have costs constitute the lowest economic limit for the determination of prices: firstly, no accounting, no control over the calculation of costs, no idea of costs for a large number of commodities, disregarding production costs in the determination of prices; secondly, inability to adjust commodity prices in good time in accordance with changing production costs, causing price relations between various commodities to lose their economic foundation with adverse effects on production, circulation and economic accounting; thirdly, due to various historical reasons and the destructive activities of Lin Biao and the "gang of four," the prices of certain commodities, especially certain agricultural products, are below production costs which has already affected agricultural production

and our efforts to raise the living standards of the rural population (the main reason for the rising production costs of certain agricultural products is that the right to self-determination of production teams was not respected and arbitrary and impracticable directions were given in violation of natural and economic rules resulting in a huge increase in expenditure of materialized labor and living labor. The main way to solve the problems is to implement the agricultural economic policies, although it will also be necessary to effect appropriate increases in prices). For these reasons we must firmly adhere to the principle that production costs form the lowest economic limit in determining prices and we must give full play to prices in their effectiveness as levers to promote production.

2. Determine prices according to the average production prices of the departments. The production costs of commodities have two basic forms, the individual production cost and the social production cost; their effects on the production and business management of enterprises are different. The individual production cost is calculated on the basis of the actual production expenditure used in the course of production at a particular enterprise; it is an important indicator reflecting the conditions of production operations at a particular enterprise. Through an analysis of the individual production costs and the changes in its components, the concrete reasons can be found out for the high or low level of production costs. This is of advantage for the enterprise to adopt effective measures, to strengthen economic accounting and to improve business management. The social production cost is obtained in the departments from the weighted average calculated on the basis of individual costs of various enterprises producing the same commodity; it is the average outlay for production expenditure under normal production conditions. The basis of price is the social value and not the individual value at an enterprise.

The cost that figures in the price formation is therefore only the social production cost and must not be the individual production cost of a particular enterprise. The fixing of prices according to the department's average cost can stimulate enterprises into adopting active measures, to raise labor productivity, lower consumption of labor, to strive to lower its individual costs possibly below that of the social cost, to create more profits, that is to provide more capital for the state and at the same time draw a proportionate amount of profit, which ultimately will benefit the enterprise and all its employees and workers.

At present, due to subjective and objective reasons, there is a considerable difference in production costs of the same commodity between large, medium and small enterprises, between new and old enterprises and between state-operated enterprises and those operated by communes and production brigades. If prices were fixed according to the department's average production costs, losses would be incurred by a large number of medium and small enterprises, by new enterprises and enterprises operated by certain communes and production brigades. To help them achieve regular production the state has, for a certain period of time, adopted the measure of fiscal subsidies and of

setting temporary price levels. Such measures can only be temporary and of a transitional nature; their lifetime must be short. The present situation of long-term subsidies to a large number of enterprises and of temporary prices becoming firmly established prices actually amounts to protecting the backward enterprises and striking out against advanced enterprises. This is detrimental to the development of the socialist economy. This method must be changed. In order to induce certain enterprises with a backward way of management to effect as quickly as possible technical reforms, to raise the level of their business management, to lower their particular production costs, to make up deficits and increase surpluses it is our belief that we must firmly uphold the principle of fixing prices according to the department's average cost. If it is impossible for certain enterprises to improve their production conditions within a certain time, if they are unable to lower their production costs, drastic measures should be taken to have them change over to the production of other items, to have them merge with others or even to close them down.

3. Clearly indicate the scope of production costs in the formation of the planned prices and the accounting method. The main purpose of studying the question of production costs included in the planned price formation is to provide a substantial economic foundation for the determination of the planned prices. This demands of us that we correctly and strictly determine the scope of the production costs and the accounting method so that the cost will more or less reflect C plus V and will not give rise to certain spurious and false data (of course if we want the cost to be a true monetary representation of C plus V , we must have the price of already consumed means of production and the price of the means of livelihood used to satisfy the needs of the individual workers rendered identical with their values. For the sake of simplifying the study of these problems, we shall assume that their prices are the same as their values).

Production cost must be the monetary representation of the consumption of materialized labor and living labor in the production process. All expenditure not part of these items of consumption must not be included in the production cost. (1) Any outlay that is part of the investment in expanding reproduction, such as expenditure for basic construction and costs for measures of technological organization, expenditure for items of fixed assets, is now all being paid by the state by allocating special capital funds. The value of the consumption of these types of fixed assets will be gradually transferred to the commodities by way of depreciation but at the time payments are made for these items they have to a great degree no connection with the production of the commodities and must therefore not be included in the production cost. (2) Expenditure that is purely loss, such as penalties for violating economic contracts, loss due to stoppage of work, losses, shortages and damage in material or commodities, repair charges on defective goods returned for repairs or wastage and losses due to subjective reasons, all these expenses are related to the quality of the business management operating the enterprise. If the business is well operated, such expenditure will be very small, or even non-existent, but large in the opposite case. Such expenses do not form part of the value of the commodities and

must therefore not be included in the cost, but must be paid out of the profits of the enterprise. (3) Outlay that is part of expenditure to be made good from surplus labor, such as expenditure for welfare benefits, outlay for engaging in agricultural sideline production, outlay for school and educational expenses for the children of staff and workers, all these expenses are not part of the value of the commodities and must therefore also not be included in the production costs. Whether some other items, such as government land used by enterprises or fixed allotments of circulating funds should incur charges and be included in the production costs so as to encourage enterprises to be economical in land use and use of capital funds, deserves serious study.

Cost accounting must also be conducted in a scientific way. Thanks to these methods the production cost will more or less reflect the consumption of materialized labor and living labor, and if the methods are improper, the cost calculation will be incorrect resulting in an unreasonable price formation. For instance, in the case of the cost accounting question concerning specialized enterprises and diversified enterprises, the present cost accounting procedural regulations prescribe two methods of evaluating raw materials (which include, as also hereafter, parts, intermediate products, semi-finished products): one is for raw materials produced by the diversified enterprise itself, these are to be calculated at production cost price and directly included into the production costs of the end product. As a result the production cost of the product will be low. Another method is for raw materials which the specialized enterprise buys from outside. These are to be calculated at the price ex factory with the addition of transportation and sundry charges and thus included into the cost of the end product. As a result the production cost of the end product will be high. In this situation of having at the same time two methods of cost formation, the advantages of high labor productivity and low production costs which should be part of the cooperation between specialized enterprises will not achieve its true reflection. Pricewise the system encourages the development of diversified enterprises and is disadvantageous to cooperation among specialized enterprises. We believe that to solve the problem of prices for items produced in cooperation we must first solve the problem of cost accounting methods and the problem of duplicate calculations of taxes and profits.

Another conspicuous problem is the scope and method of cost accounting for agricultural products. Is the consumption of materialized labor in the cost of agricultural products, such as the rate of depreciation of agricultural machinery and equipment, arable land, grounds and houses used for production, agricultural fields as investment in basic construction, to be depreciated, is agricultural fertilizer to be included in the production costs? How is the consumption of living labor to be calculated, according to the actual daily cost at the particular production brigade or according to the local average daily cost or standard daily cost (the relevant department has already determined this to be 0.80 yuan.) In the whole country there is no uniform standard or implementation is not at all uniform. Cost calculations of agricultural products are therefore highly inaccurate providing an insufficient economic basis for the determination of agricultural prices or their adjustment.

4. Consideration must be given to the question of production costs in enterprises working under different conditions of available natural resources. This is a question always present with mining products and agricultural products. Because the conditions of natural resources at different mines are quite different, there is a great disparity in the production costs of the same product mined at different mines. Some mines are well managed but suffer from unfavorable conditions of natural resources; their production costs will be higher than the average production cost of the department. Some mines are badly managed but have very favorable conditions of natural resources; their individual production costs will be lower than the average costs calculated by the department. If in these conditions no consideration is given to these various factors and prices for the various mining products determined on the basis of the average production costs calculated by the department it would be detrimental to the economic accounting in mining enterprises. Since in our country the greater part of the mines are the property of the people as a whole, consideration might be given to adopting two kinds of price figurations to solve the abovementioned contradiction: the department in charge of production (or the Joint Mining Company) adopts a uniform sales price to the outside world and with regard to each individual mine an accounts clearing price. For the uniform sales price, the department's average production cost may serve as the main basis, but for the accounts clearing price the main basis is to be the particular production cost of each individual mine. The differential between the two prices shall be handled by the department in charge of production management (or the Joint Mining Company), using profits to make good the deficit. Having the two prices will ensure that each mine under normal conditions of production can obtain the necessary replenishment of labor consumed and make a profit. This would be beneficial for the development of production.

The production cost in agriculture differs with the different conditions for agricultural production in the various areas. Whether the cost of agricultural products is to be calculated according to the average production cost determined by the department or according to the most inferior production costs, is a question that requires serious study.

2. How to Determine Profit in the Planned Price

After we have established that cost is the main basis in the formation of planned prices, the problem of how to determine the level of profit becomes a key question in our studies of the formation of planned prices. For many years there were many divergent opinions in and outside China among scholars of economics as to how to determine the level of profits. However, basically they fall into three kinds of ideas, namely those that suggest to determine the profit in planned prices according to the department's average wage profit ratio, according to the department's average production cost profit ratio and according to the society's average capital fund profit ratio.

We believe all three profit ratios reflect from different angles the condition of production and operation of the enterprises and are in different ways effective in promoting improvements in the business administration of

the enterprises. However, each of them has a different flaw. If any one of them were taken as the single basis for the determination of prices, the result could not be satisfactory. It is our suggestion to take the cost profit ratio as the main principle, to give full consideration to the capital fund profit ratio and to appropriately consider the wage profit ratio to fix prices with due consideration of the economic interests of various different departments. Our reasons are as follows:

First, value is created by the workers but the means of production are an indispensable precondition for production. Since production cost reflects the consumption of materialized labor and also the consumption of living labor, to fix prices according to the cost profit ratio is taking more completely into consideration the functions of the workers and of the means of production. It therefore also reflects more objectively the M portion of the value. The wage profit ratio eliminates the influence on profit of the larger or smaller amount of materialized labor consumed. It emphasizes that the workers are the effective creators of value but ignores the function of the means of production, especially of the physical-technological equipment. To employ the wage profit ratio to determine prices would bring about a condition in which labor force can more or less directly influence profits and would therefore not be beneficial for the advancement of production technology or the raising of labor productivity. The capital fund profit ratio would link together the capital funds and profits under the control of different departments. In the situation where the conditions of the physical-technological equipment are gaining ever growing significance for the development of the social production, the fixing of prices according to the capital fund profit ratio would be beneficial for the adoption of new technologies and to raising labor productivity. However, it does not at all reflect the actual consumption of the means of production, to what extent the capital funds available directly influence profits, and it furthermore ignores the function of the workers, especially since in the wake of scientific and technological advances wages reflect not only the number of workers but also the quality of the workers--the increase in highly qualified technical personnel. The fixing of prices according to the cost profit ratio can in general incorporate the advantages of the wage profit ratio and the capital fund profit ratio, but avoid their shortcomings.

Secondly, fixing prices according to the cost profit ratio directly links together production cost and profit, these two important factors that make up the price. The fact that by merely reducing their individual production costs, enterprises can increase their profits signifies that in socialist enterprises the reduction of costs is the basis for increased profits. Thus a clear and concrete target is provided for enterprises to improve their business management by increasing profits.

Thirdly, to employ the cost profit ratio in fixing prices is simpler and more feasible in actual working conditions. Because there is statistical data on which the departments for the various commodities base their average production cost figures, the amount of profit according to the cost profit ratio can be very quickly figured out and by adding the fixed taxes, the

planned price of every commodity can be established. To fix prices according to the capital fund profit ratio is comparatively more difficult, because the production cost of each commodity is determined according to the department's average production cost, it makes it rather cumbersome to establish the profit rate for each commodity. First we must multiply the social average capital fund profit ratio with each department's capital portion to figure out that department's total amount of profit. If the production of only one item is the concern of that department, for instance in the electric power department, then we have to divide the total profits by the total production to figure out the profit to be allotted to each product. However, in many departments the commodities are of many, many different kinds and the quantity produced of each commodity is quite different. To calculate the share of profit for each item therefore requires lengthy calculations. The kinds of commodities and their quantities also regularly change which makes this kind of calculation extremely troublesome.

There are of course also quite a number of problems in fixing prices according to the production cost profit ratio. For instance, the C component of the production cost is only the transfer of already consumed means of production, but does not reflect the condition of means of production under the control of the entire department or enterprise. The greater or smaller value of machinery and equipment, the amount of transformations, changes in the price of raw materials, changes in the kinds of commodities produced, etc. all influence production costs and therefore profits also. To avoid these flaws in fixing prices according to the cost profit ratio, we must give full consideration to fixing prices according to the capital fund profit ratio and the wages profit ratio. For instance, when fixing prices for the products of the greatly labor-intensive department of excavating, full consideration must be given to the wages profit ratio. In the case of fixing prices for the products of the machine building department which involves the use of much machinery, full consideration must be given to the capital fund profit ratio. The rate of profit therefore differs in different departments. Besides all this, we must also employ such measures as raising the rate of depreciation of fixed assets, levying capital tax, replacing rigid working capital with bank credit, applying different interest rates in different conditions, etc. to encourage enterprises to be more economical in the use of capital and to improve their business management. The socialist economy is a complex organic whole. It is unrealistic and not feasible to hold on to only one indicator or to use one indicator to assess the management of enterprises. The only way is to grasp all important indicators, supplement them with any other indicators and bring together a whole system of indicators to assess the management of enterprises. Every different period of time and every branch of business has its different special features.

It is our opinion that the capital fund profit ratio may be used as an indicator to assess enterprises and as a reference in fixing prices, but not as the only basis for determining prices.

Before we explain our viewpoint, we must clarify one question, namely that production prices are to solve the problem of averaging profits in the production departments of organically different composition and are not to solve the problem of averaging profits of enterprises with different degrees of technological equipment within one department. Due to the existence of the contradiction between social values and individual values, labor productivity and also the rate of profit differs in enterprises with different degrees of technological equipment and we must not require that each individual enterprise achieve the average rate of profit. Enterprises with a high degree of technological equipment will have a high rate of labor productivity and a high rate of profits and should therefore deliver up more profit. It is right to fix a tax rate for capital funds and to require enterprises that use much capital to remit more profits, but it would not do to fix prices according to the capital fund profit ratio.

Some comrades who suggest the use of production prices want to use the production prices to solve the problem of capital funds taken up, a problem of inter-departmental relations or between different enterprises of one department. However, some comrades who are against the use of production prices argue that the question of medium and small enterprises and local enterprises with inferior technological equipment will suffer losses when production prices are used to fix prices, is not a question of production prices. Comrades of these differing opinions mix up to some extent the question of differences between departments of different organic composition and the question of differences in technological equipment and amount of capital taken up by enterprises within the same department. If these two questions are clearly separated, some problems can be clearly explained.

(1) It is possible to use such methods as taxation of capital in order to urge enterprises to be economical in the use of capital funds but it is unlikely that the capital fund profit ratio can be used to fix prices and to work with production prices. Some comrades believe that if we require enterprises to pay capital tax, we must take production prices as a basis for the fixing of prices. Otherwise, enterprises will not calculate profits according to the capital fund profit ratio, enterprises that take up much capital will not be able to pay capital tax and will consider that a natural link exists between capital tax and production prices. But that is not necessarily so. After we establish the production cost profit ratio as the main principle and give full consideration to the capital fund profit ratio and the wages profit ratio in determining prices, we can set the capital tax so that enterprises will be able to pay it and will furthermore derive some benefits from it. We must also give consideration to the fact that large, medium and small enterprises exist side by side in our country at the present time and that there exists a great disparity in organic composition between departments; sometimes up to several tens of times. If we have a uniform capital tax for all departments many medium and small enterprises would not be able to pay the tax. We must therefore consider having different rates of capital tax for different departments and different types of enterprises. It is a very complex question as to how to determine the

capital tax so that on the one hand enterprises will be able to pay the tax and on the other hand will be urged to be economical in the use of capital. We must examine the many aspects and factors of this question and cannot possibly solve the problem by merely taking the production price as a basis for the determination of prices.

Besides, we also must realize that the use of the capital fund profit ratio to fix prices has also certain limitations in its ability to urge more economical use of capital funds by enterprises. Because an equal amount of capital will earn an equal amount of profit, this cannot solve the problem of economy in taking up capital. On the contrary, the more capital is taken up the more profits are made. Even if this means that more capital tax will have to be paid, the absolute amount of correspondingly remaining profit will also be large and this would be beneficial for all enterprises taking up large amounts of profit.

(2) To fix prices according to the capital fund profit ratio and thus assess economic effectiveness also has its limitations. The comrades who are in favor of production prices believe that by fixing prices according to the capital fund profit ratio one can basically eliminate the influence of unequal capital and consequently unequal degrees of physical-technological equipment on the results of production and operations. An equal amount of capital may earn an equal amount of profit, that would yield a uniform standard for measuring economic results, reflecting the economic achievements of different departments and enterprises. But this too is not necessarily so. First of all, if different departments all get the average profit, the economic results are all the same and there would be no way to compare superior and inferior ones. Secondly, the comparison of economic results is applicable only for commodities of similar value or of interchangeable use as, for instance, hydroelectric and thermoelectric power plants, coal, petroleum and thermal energy, cotton cloth and synthetic fiber material, copper material and aluminum material, detergents and soap, etc. It is very difficult to compare economic results of products of different value. Even in the comparison of economic results of the same commodities there is a difference in the economic results on a long-term basis or on a present-day basis. For instance, in the case of a hydroelectric power plant the one-time investment is large, it takes up much capital, but the annual production costs are low. In case of a thermoelectric power plant the one-time investment is small, it takes up little capital, but the annual production costs are high. In the case of a hydroelectric power plant the capital fund profit ratio is therefore low and the production cost profit ratio high, and in case of a thermoelectric power plant the capital fund profit ratio is high and the production cost profit ratio low. This shows that when making comparisons of economic results we cannot merely use the capital fund profit ratio, but must also use the production cost profit ratio; in some cases we also must have reference to the wages profit ratio.

(3) After fixing prices according to a uniform capital fund profit ratio and because the proportions of state investments in various departments

change (Marx pointed out: "In the formation of interest rates in general one must not only give attention to a difference in interest rates between different production departments and strive for a simple average figure for all of them, but must also give attention to the proportion that the different interest rates occupy in the formation of the average figure. This depends on the proportion of capital invested in each special department, which means it depends on what proportion of the total social capital is taken up by capital invested in each special department."³), the labor productivity and such factors will also cause corresponding changes in the interest rates of the different departments. They will again widen the differentials and require fixing new prices according to the new capital fund profit ratio, requiring a complete adjustment of prices and causing a change in the entire price range. If there is no timely adjustment there will be no uniform capital fund profit ratio and there will be no need to fix prices on the basis of production prices.

The fixing of prices on the basis of production prices may also involve a whole series of questions such as stabilizing commodity prices, the possibility of transferring capital funds between departments, the limits of authority to control commodity prices, etc. If appropriate changes cannot be effected in all these questions, the production prices can hardly be able to fully play their necessary part.

(4) At present the mechanized component in the agricultural production departments in our country is very low. It is basically a system of collective ownership. Prices are fixed according to production prices. The price of agricultural products may be far below their value. This state of affairs must have an influence on efforts to raise agricultural production and raise the livelihood of the peasants. It is detrimental to the development of a collective economy and to the strengthening of the worker-peasant alliance.

In industry too there is also a great disparity in mechanized components of the various different departments. The proportion of medium and small enterprises in the various departments is also not at all the same. If prices were fixed on the basis of production prices, part of the profits created by departments with low mechanization and large proportion of medium and small enterprises will shift to departments with high mechanization and would be detrimental to the development of these departments. At present under the condition of fixing prices according to the production cost profit ratio, we have in our country certain heavy industry departments whose production cost profit is higher than that in light industry departments and light industry departments whose capital fund profit ratio is higher than that of certain heavy industry departments. If prices are fixed on the basis of capital fund profit ratio, a part of the profits of the light industry departments will shift to the heavy industry departments. The problem is not a big one if unity of fiscal receipts and expenditures is practiced, but becomes very conspicuous if enterprises will retain their profits or bear responsibility for profits and losses.

3. Fixing Prices With Reference to the Changes in Supply and Demand, to Reflect the Needs of the Society as a Whole and the Demands for the Development of the Entire National Economy

The supply and demand relation has a definite significance for the fixing and adjustment of prices. This is most clearly demonstrated with items that are not basic daily necessities, but it can also not be completely neglected in the case of the most important daily necessities. When the state determines the planned socialist prices of commodities, it must therefore not only base this on the demands of the law of value, take value as a basis, but must also have reference to the changes in the supply and demand relation. It must regulate production and circulation through planned raising or lowering of prices, in order to reflect the basic socialist laws of economics, the rules of proportionate, planned development of the national economy, the rules of socialist accumulation and to meet the demands of the general task and overall policies of the party. The departure point must be the needs of the entire society and the economic interests of the whole nation when effecting a planned rise or reduction in the prices of certain commodities above or below their values.

For instance, in the present exchange of industrial products for agricultural products there exists today the "scissors discrepancy." It is a demand of the law of value to abolish the "scissors discrepancy" and firmly uphold the principle of exchanges at equal value, but due to the limits of state finance, we can only, in the course of economic development, gradually narrow but not immediately abolish the "scissors discrepancy." The state still needs to obtain part of its accumulation from the peasants by means of the price structure. After raising the prices when buying up agricultural sideline products, the state made different arrangements with regard to the selling prices of different agricultural sideline products to prevent a lowering of the living standard for urban employees and workers and to consolidate the political state of stability and unity. Grain sales prices were not changed at all and stability firmly maintained in the sales prices of agricultural products that are daily necessities of the masses. Where agricultural products had to be raised in sales prices, the consumers were given an appropriate subsidy.

As regards certain commodities urgently required in the national economy, their increased production was mainly ensured by certain planned arrangements and in addition the state fixed their prices in a planned way either higher or lower than their value to urge enterprises to increase production. Especially with regard to the production of the collective economy there was an even greater need to urge the collective economy to fall into line with the state plan by means of adjusting the prices of certain commodities upward or downward.

On the basis of changes in the supply and demand relation of certain commodities the method of adjusting prices upward or downward in a planned way was used to raise or lower these prices appropriately over or below value

to encourage or discourage people in their use and bring about a balance of supply and demand.

To encourage enterprises to use substitute materials or discourage the use of certain imported raw materials, the state lowered the price of the former below value and raised the price of the latter above value, etc.

In summary, prices affect the nation's construction and the people's livelihood, they are involved in production, circulation, distribution and consumption. In the fixing and adjusting of planned prices one must be extremely cautious, make overall plans and arrangements. In the adjustment of prices for commodities related to the daily necessities of the people one must adopt a prudent policy.

The question of fixing planned socialist prices is a very complex question. We have only just begun the study of this question. Many of our viewpoints are not necessarily correct. We welcome everybody's criticism and corrections.

FOOTNOTES

1. Lenin "You-yi-ci Xiao-mie She-hui-zhu-yi [Destroying Socialism Once More]" in "Lie-ning Quan-ji [The Works of Lenin]" Vol 20, p 194.
2. Marx, "Das Kapital" Vol 3, pp 45-46.
3. Marx, "Das Kapital" Vol 3, p 182.

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FINANCE AND BANKING

EMPHASIS OF PRESENT FINANCE WORK, MANAGEMENT OUTLINED

Beijing CAIWU YU KUAIJI [FINANCE AND ACCOUNTING] in Chinese No 2, 20 Feb 79
p 17

[Article by Zhang Yuanchao [1728 2266 2600] of the Nanjing Municipal Financial Bureau: "How to Shift the Focus of Financial Work to Modernized Socialist Construction?"]

[Text] The Third Plenary Session of the Central Committee of the CCP 11th Congress decided that from 1979 onward, the focus of the work of the whole party will be shifted to modernized socialist construction. This is a great revolutionary change. Like a militant bugle, it has sounded the call to advance in accelerating the realization of the four modernizations.

How should financial work serve the four modernizations? How should the focus of work be shifted to modernized construction? We believe that, to realize this change, we must attain "four high" demands on financial work. They are: high speed in accumulation, high results in investment, high level in management and high efficiency in work. How can we reach the "four high" demands? At present, we must carry out well and in a down-to-earth manner the three "changes": First, to change from the management of the economy by purely administrative measures to the management of the economy primarily by economic methods; secondly, to change from simply being bogged down by receipts and payments and by talking about finance only to grasping the turnover of funds and economic results and promoting and supporting the sustained, proportional and high-speed development of the national economy; and thirdly, to emancipate our method of thinking and method of work from the forces of habit of small-scale production and adapt them to the needs of the four modernizations.

The key to the three changes is ideological change. To enable our steps to catch up with the pace of the "great transformation" and to enable our work to meet the demands of the "great transformation," we must first bring about a big change in the ideology of the leadership. Only when the "head of the dragon" turns quickly can the "body of the dragon" and the "tail of the dragon" follow suit. We must resolutely overcome that tendency of not

daring to say what is not written in the books and not daring to do what is not stated in the regulations. We must shatter the "prohibited zones," be practical and realistic, proceed from reality in all matters, dare to persevere in whatever practice proves to be favorable to the "four modernizations" and dare to reject and abandon whatever obstructs the "four modernizations."

How can "change" be brought about properly? I recall that, since the shattering of the "gang of four," finance, like other trades and undertakings, has scored relatively big achievements, primarily because it was possible to proceed from the overall situation, seeing it clearly, following it closely and working for its development. Only in this way could we bring about quick changes and make big strides. We must be able to see the difficulties in our advance. But when we see them we should overcome them, and refuse to be awed by the difficulties. Only in this way can we have sufficient confidence to overcome difficulties and enable finance to obtain great, quick and good results and spend in an economical manner. Thus, we ask that leading personnel at various levels, in considering work and studying a question, stand on a high plane and see far ahead, and catch up with the situation, so as to consolidate and develop the excellent state of affairs.

In the great struggle to realize the four modernizations, in the course of the shifting of the focus of work, many new events, new problems and new experiences will appear. We must study assiduously, support new events, study new problems and sum up new experiences. We must act in accordance with the principle that practice is the only criterion for testing truth, examine the receipt, payment and management aspects in our actual work to find out which are favorable to the "four modernizations" and which are not. We must overcome our conservative and backward aspects, sum up our experiences and give prominence to our achievements, so as to reduce guesswork and raise our consciousness.

At present, we must also be good at considering problems, be bold in exploring and be daring in creating something new. We must actively launch investigations and study, conscientiously act in accordance with objective economic laws, make a thorough break with the old traditions, concepts and forces of habit, courageously break through the rules and regulations that are unsuitable for the development of the situation and greatly raise the level of our management. But we definitely must not have evil or bad ideas, be ostentatious or follow the trend. Rather, we should propose practicable programs, opinions and methods in accordance with specific situations, carry out overall balance well and be staff officers and aides to the party committees and to the departments.

A thousand-li journey begins with the first step. Now the new change has begun. We must not only have a sharp eye for the grand goal of the "four modernizations," but must also grasp the present in a down-to-earth manner. We must vigorously promote the fine style of speaking the truth, doing

things practically and going all out. From the beginning of the year, we must conduct investigations and study in the work of receipt, payment and management aspects under the new situation, do things in order of importance and urgency and solve those that urgently need to be solved. For those problems that can be solved, we can put each and every one of them on the agenda, make arrangements, adopt measures and examine them thoroughly and score achievements as quickly as possible. We must not rush headlong into anything by ignoring objective possibilities. For instance, as of this year, after our municipality has reshuffled its specialized units, a new industrial system has already appeared. The system of financial management and the financial and taxation measures which have been used for many years should be readjusted accordingly. The level of management of our cadres is not high and their vocational ability is not strong, so we should grasp the solution of whatever does not conform to the situation. We must continue to eliminate the obstacles coming up in the new change, accelerate our pace and advance in big strides toward the grand goal of the four modernizations.

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FUELS AND POWER

CONSERVATION SAID KEY TO READJUSTMENT IN SHANGHAI

Shanghai JIEFANG RIBAO in Chinese 8 Jul 79 p 1

[Article by Commentator: "Further Lower Consumption of Electric Power, Fuel and Raw Materials"]

[Text] At present, the staff and workers on Shanghai's industrial and communications front, in order to carry out the policy of "readjusting, restructuring, consolidating and improving" the national economy, are enthusiastically responding to the call of Comrade Hua Guofeng at the Second Session of the Fifth National People's Congress, and broadly and penetratingly launching a movement for increasing production and practicing economy centering on high output, top quality, increased varieties and reduced consumption. In this movement, they are continuing to strive to the utmost to lower the consumption of electrical power, fuel and raw materials and use the limited amounts of these resources to increase the output of even more products which satisfy the needs of the market. This is an important key to Shanghai's industry maintaining a certain pace of growth in the course of readjustment. All the workers and staff of the municipality must make new contributions in this arena.

A prominent contradiction at present and for some time to come in Shanghai's industrial production is deficiency in supply of electrical power, fuel and some raw materials. We must look at this contradiction and handle it correctly. One important part of readjusting the national economy is precisely to solve the problem of serious imbalances between the industries of electrical power, fuel and raw materials and the processing industries and to gradually attain a state where there are no more shortages of materials. But it will take a rather long time to do this. In the face of this objective reality, Shanghai's industry, the "big family" in materials consumption, definitely cannot wait passively on a balance in materials but must take the greatest pains to grasp economizing well, making each kilowatt, each jin of coal and each drop of oil produce the greatest economic effect. This will contribute to changing the imbalances in this area and at the same time elevate the level of technology and production in Shanghai's industry to new heights.

An important path to further lowering the consumption of electrical power, fuel and raw materials is to rapidly promote for use the advanced techniques for lowering consumption which have already been grasped. For example, the municipality has electrical heating equipment for 600 degrees and below with a total capacity of 200,000 kilowatts. Of this, equipment with a capacity of 70,000 kilowatts already uses the new technique of microwave [far infrared] heating. If the remaining 130,000 kilowatt equipment all used this new technology, 100 million kilowatt-hours of electricity could be saved each year. As another example, the No 1 Printing Plant has adopted measures such as concentrating and utilizing the return vapors and water and blocking cold air from entering its boilers, thereby raising the utilization rate of thermal energy from 32 percent to 37 percent and enabling it to save 2,000 tons of coal each year. The experience of this advanced technology can also be popularized throughout the municipality. In sum, to popularize in an all-round way the advanced techniques of some units within China and within Shanghai in the field of economizing is a visible, palpable latent force and must be given sufficiently serious attention. The relevant departments should give support to the expenditures and goods and materials for some necessary measures in the process of popularising advanced technology. Of course, at the same time that we popularize advanced techniques which have already been grasped, we should also do research on and create other new techniques and study advanced foreign techniques in lowering consumption, so as to cause the consumption of goods and materials to fall to new levels.

To further reduce the consumption of electric power, fuel and raw materials, we should also expend efforts on strengthening management. Since this year, many units have further raised the quality of their products and persisted in producing products which satisfy the needs of the market in accordance with social needs. Perhaps in so doing they do not save much electric power, fuel or raw materials, but because of the improvement in quality, one product can take the place of several, and because the product satisfies the market, overstocking of inventory is avoided. From a social standpoint, this is very great economizing. Some units have carried out a survey of the condition of utilization of electric power, fuel and raw materials and have adopted measures aimed at existing problems. Some units have revised their consumption norms and have carried out a system of issuing materials according to limited quotas. Some units have used methods such as

"capital fund vouchers" to make clear the economic responsibilities of each workshop and team. Some leading departments, after making an analysis, have first guaranteed limited materials to units with low consumption, to enable raw materials which originally produced low-grade products to go to produce high-grade products demanded by domestic and foreign markets. For example, the Xinyi Tannery overcame technical difficulties to use the same kind of raw materials to greatly increase its production of comparatively high-grade leather. The sales price of leather shoes produced after export went up a great deal over the original. All these different methods and experiences for economizing on electrical power, fuel and raw materials and raising their economic effectiveness through strengthening management have a universal significance, and merit serious study by all units.

To further lower the consumption of electrical power, fuel and raw materials, we must spread lively propaganda among the masses, mobilizing them to display a "penny pinching" spirit, to tap every bit of the potential for economizing. The broad masses should be made to understand that economizing every little bit has very great economic significance. For example, based on the average level of industrial production in the municipality, by economizing on one kilowatt-hour of electricity we can produce goods with a production value of 4 yuan and create 1 yuan in additional financial revenue for the state. In addition, practicing strict economy can produce a good social atmosphere. It in itself is a way of eliminating chaos and restoring order. If we do without this kind of eliminating chaos and restoring order and go around wasting precious material resources at will, it will be impossible for our country, populous and with a poor foundation, to realize the four modernizations. When we spread propaganda among the masses, we must also organize the masses. In the movement to increase production and practice economy, many units mobilize the masses to make detailed accounts, to make a big issue of the word "one." This has produced very good results. For example, by reducing its consumption of pig iron used in casting by one percent, the sewing machine trade can increase production of sets of sewing machines by 200,000 per year; and by raising the rate of quality products by one percent, the enamel trade can increase state income by 200,000 yuan per year. The paper making trade has initiated a "first grade boiler room" competition, with 40 percent of the 31 boiler rooms already becoming municipal first class advanced boiler rooms. In the first quarter of this year they saved over 3,700 tons of coal, and in addition brought the three wastes under control. If this kind of competition were developed on an all-round basis between the 4,000 industrial boilers throughout the municipality, extremely marked results could be obtained in saving coal and controlling the three wastes.

In order to further lower the consumption of electrical power, fuel and raw materials and use various material resources in the places they are the most needed, the various trades and professions must acquire an all-round point of view and think in terms of "a chessboard." Only through inaction can you do things; only by not holding on to things can you hold on to them. At present, electrical power, fuel and other materials must first be guaranteed to light, textile and handicraft industries, to enable these industries to meet the demands created by the continual increase in the people's purchasing power and by expanded exports. The metallurgical and chemical industries, big users of electricity and coal, must be particularly good at economizing and persist in making a point of increasing production within the consumption targets allocated them, bearing more heavy burdens in increasing production and practicing economy throughout the municipality. Even the "priority households" of electrical power and fuel must economize strictly, not consider themselves "priority come what may" and only look out after themselves. Although the amount of electricity used for commune and brigade industries, farm irrigation and drainage, commerce and lighting is a small proportion of the total, we must at the same time oppose extravagance and willful waste. We must also put into operation as soon as possible the generation of

electricity from waste heat and newly built generating units, to broaden sources of income and reduce expenditure and to resolve the prominent contradictions in industrial production from two sides. If only we have the concerted efforts of the staff and workers of all Shanghai in all regards, we will certainly be able to vanquish all difficulties arising in the path ahead, and carry out industrial production in Shanghai even better.

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FUELS AND POWER

SHANGHAI TO RAISE ENERGY UTILIZATION RATE BY 5 PERCENT

Shanghai JIEFANG RIBAO in Chinese 12 Jul 79 p 1

[Article: "Please Look at the Figures and Facts to Determine Whether or Not the Potential for Saving Energy Is Large"]

[Text] The Municipal Meeting to Exchange Experiences in Saving Energy held yesterday proposed an idea: in the three years beginning from 1979, through the efforts of the staff and workers, to raise Shanghai's energy utilization rate from the present 30 percent to 35 percent. In this way, the municipality can squeeze out an equivalent of over 4 million tons of raw coal and greatly ameliorate the contradictions of energy insufficiency.

It was pointed out at the meeting that the potential for saving energy in Shanghai is very large. Each year the municipality uses approximately 12 million tons of coal and 6 million tons of fuel oil, but the percentage which is actually sent to the site of use is very small, with a thermal efficiency of only about 30 percent, and a very low combined energy efficiency rate. In places such as Western Europe and the United States, thermal efficiency is generally over 40 percent, and in Japan it can exceed 50 percent. The difference between ourselves and these countries is very great.

Why is our thermal efficiency not high? The meeting pointed out that there are over 6,200 boilers of various sizes throughout the municipality. First, when these boilers are fired, an average of 15 percent of the coal used which enters the boiler chamber escapes from the chimney without being burned. Many of the black dragons in Shanghai's air come from here. Secondly, only 25 to 30 percent of the steam supplied by these boilers is used in production. The remainder is lost to evaporation, emission, dripping and seepage. Sometimes not very much steam is used in production. The boiler tenders act in the same old way to boil off all the steam. Third, most of our thermal energy is used once and discarded. In other countries it is usually used several times. If the industrial boilers throughout Shanghai would first use the steam to generate electricity and then use it in production, 100,000 kilowatts of electrical power could be generated. But at present only 13 factories in the municipality generate electricity with waste heat, with a total installed capacity of just 9,400 kilowatts, not even one-tenth.

In the Shanghai foundry trade there are over 400 cupola furnaces which are fully operated for 5 hours a day, not even half. Over 40 units in Shanghai have 56 sets of oxygen preparation equipment of various sizes. To create 1 cubic meter of oxygen, a large machine uses 0.6 kilowatt-hours, while a small one requires 1.5 kilowatt-hours. Sometimes the oxygen produced by a large machine is not completely used and is released into the air, while a small machine runs without stopping. Even more seriously, nitrogen is produced in the process of creating oxygen. Units which need oxygen let the nitrogen go, and units which need nitrogen let the oxygen go. The waste is enormous.

The meeting pointed out that the trade in Shanghai which consumed the greatest amount of energy is metallurgy, with 36.3 percent of the municipality's energy; then the chemical industry, with 17.9 percent, and textiles, with 10.5 percent. The three trades together take 64.7 percent of Shanghai's energy. We hope that in the course of the municipal movement to increase production and practice economy focusing on saving energy, the staff and workers on the fronts of metallurgy, chemicals and textiles put forth a bit more effort and unearth a bit more potential to allow our precious energy to be brought into full play.

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CAPITAL CONSTRUCTION

CAPITAL CONSTRUCTION, ROLE OF CONSTRUCTION BANKS DISCUSSED

Beijing CAIWU YU KUALI [FINANCE AND ACCOUNTING] in Chinese No 2, 20 Feb 79
pp 3-5

[Article by Wu Boshan [2976 0590 1472]: "Grasp Objective Economic Laws and Raise the Level of Work of Construction Banks"]

[Text] A construction bank is a specialized state bank that manages the expense budget and financial affairs in capital construction and handles the allocation of funds, settling of accounts and making of loans for capital construction. Guided by Chairman Mao's revolutionary line, and with the development of our country's socialist construction cause, the various tasks of construction banks are continuously developing and advancing. Through various kinds of economic measures, the construction bank reflects the demands of objective economic laws and effectively supports and promotes the development of the capital construction cause in a greater, faster, better and more economical manner. However, the interference and sabotage of Lin Biao and the "gang of four" have confused men's thinking. Many rules and regulations that conformed to objective economic laws and effective economic measures have become lax, thereby greatly weakening the functional role of the construction bank. At present, in the great advance in shifting the focus of the work of the whole party to the modernized socialist construction, the construction bank is shouldering even heavier tasks. Instead of being weakened, its work must be strengthened; instead of being reduced, its economic measures must be expanded. In order to eradicate the pernicious influence of Lin Biao and the "gang of four," bring order out of chaos and enable the work of the construction bank to meet the demands of the new period, it is necessary for us to conscientiously sum up previous experiences, raise our consciousness of recognizing and applying the objective economic laws and, on this basis, raise in a big way the level of our management work.

(I)

The basic aim of developing the socialist economy and continuously expanding production is to satisfy the daily increasing needs of the people's material

and cultural lives and to render due contributions to mankind. This is determined by socialist economic laws. All our work, including the work of the construction bank, must abide by this basic aim. Capital construction is an important measure in realizing the expansion of production. In order to accelerate the pace of the four modernizations, we should do our best to bring about capital construction in a greater and faster manner. But it must be noted that capital construction is a special production department, and its production period is relatively long. In analyzing the characteristics of capital construction, Marx once pointed out: "Over a long period of time, they use up the labor force and means of production, but during this period they do not supply useful products." Based on this characteristic, only when we appropriately ascertain the construction scale and do our best to shorten the construction period can we raise the effect of investments, guarantee the smooth development of socialist production and continuously improve the people's livelihood. Otherwise, if the scale of the capital construction is too large and if the construction period is too long, then doubtlessly excessive labor means of production and means of livelihood will be tied up in "half-done" projects. This not only will be unfavorable to production, it will also be unfavorable to the improvement of the people's livelihood. In the past few years, due to the interference and sabotage of Lin Biao and the "gang of four," capital construction items outside the plan were brought in and the capital construction front was lengthened. Many engineering projects were delayed again and again, thereby putting pressure on agriculture, on the market and on production and repairs, and bringing about serious harm to the national economy. These facts proved in a negative manner the accuracy of the above thesis. Our comrades who are engaged in the financial affairs and the work of allocating funds for capital construction must pay great attention to this feature of capital construction and, through their own professional activities, vigorously promote improving the effects of investments. In the past 2 years, the construction banks in various places have conducted some investigations on the condition of capital construction in their own localities. They paid attention to the necessity of construction, as well as considering the actual possibilities. They paid attention to the sources of capital as well as studying the balance among manpower, finances and materiel. When they discovered a problem, they would report it as it was and make suggestions. They played an active role in shortening the capital construction front and in concentrating the forces to fight a battle of annihilation. At the same time, they assisted concerned departments to launch a widespread campaign to straighten up and reduce the engineering projects that were in construction, and assisted in clearing up the accounts and solving the remaining problems for those engineering projects which had already completed construction but which had not been put into operation, as well as those "moustache" and "tail" engineering projects which had been put off for many years. They enabled the engineering projects in construction that cost several billion yuan to go into operation. They adopted measures and actively supervised and assisted construction units and engineering units to regulate and handle the surplus materials in stock and reduce overstock and waste. All these tasks were favorable to raising the effect of investments on capital construction.

Capital construction is directly related to strategic planning and the speed of long-term development of the national economy. Thus, to raise the effect of investments, we must not only aim at economizing investments and shortening the construction period as much as possible, we must also pay attention to studying the economic rationale of the construction projects. For instance, through investigations and study, some construction banks made sensible suggestions, enabling several highway and special railway projects in the same area to be combined into one project, and enabling the locality's newly-built factories which were engaged in setting up their own auxiliary workshops, such as machine repair, electroplating, heat treatment, foundry and forging workshops, to merge their construction. In this way, not only did they save a large amount of investment and take up less land, more importantly they enabled production to conform more to the principle of coordination between specialized units and planning to become more rational, thereby bringing economic benefits into greater play.

We should also note that capital construction is a complicated production process and has inherent laws governing its activities. For many years, the party and the state have repeatedly emphasized that it is necessary to have surveys precede design and design precede construction, and to act strictly according to the procedures of capital construction. Practice proves that this stipulation is effective and embodies the demands of objective laws. Whenever we acted in accordance with the procedures of capital construction, we obtained great, fast, good and economical results. But, when we did not act in accordance with the procedures of capital construction, started a project hastily, sought completion impatiently and carried out survey, design and construction at the same time, we often ended up building, remodeling and tearing down at the same time, brought about waste in construction and, even if we barely completed a construction project, we could not use it. Lessons in this respect are profound. In the work of allocating funds, construction banks employed the economic measure of not allocating funds to projects that violated the procedures of capital construction. To act strictly in accordance with the procedures of capital construction is an important guarantee that investments in capital construction can obtain the desired results.

(II)

The proportionate distribution of social labor is a common objective law shared by all societies. However, only a socialist society that has established the system of public ownership of the means of production can consciously adopt plans to constantly maintain a reasonable proportion. This is an important sign of the superiority of the socialist system. Lenin said: "Only construction that is launched in accordance with a general grand plan and that strives to make rational use of economic resources can qualify to be called socialist construction." Chairman Mao also said: "To build a powerful socialist country, it is imperative to have a strong and unified central leadership and unified planning and discipline throughout the country." In view of the present condition of capital construction, it is

particularly necessary to emphasize the unified planning of the state. In the past few years, due to the interference and sabotage of Lin Biao and the "gang of four" in capital construction, semi-planned and semi-anarchist states appeared in which some engineering projects outside of the plan were out of control and items inside the plan were not implemented. When the party Central Committee and the State Council repeatedly asked the construction banks to "follow the plan" and "hang on," it was precisely for the sake of meeting the needs of the socialist unified planning and meeting the needs of developing in a planned and proportionate manner. Thus, in our work we must firmly establish the concept of adhering strictly to the state's unified planning, guarantee without delay whatever is in the plan and resolutely block off whatever is extraneous. Otherwise, when those "nod-of-the-head projects" and "informal engineering projects" outside the plan are launched, they will affect the key projects inside the plan, disrupt the state plan and adversely affect the whole situation. Even when some items are truly necessary, have favorable factors and can be built, we still should follow the procedures of the plan, include them in the plan and balance the situation, and not let them go their own way.

We must realize that planning is an ideological thing and the drawing up of plans is often limited by men's level of understanding. Even when the plan is correct, new imbalances may still appear during its implementation. If a construction bank has a fund allocation supervisory network that covers the construction sites throughout the country, has the conditions that can sensitively reflect the activities of capital construction, and carries out penetrating investigations, studies, analyses and comparisons, then it can discover existing problems in the plan and make suggestions that conform to the actual situation. The experiences of many years prove that, in this respect, a construction bank can play a dynamic role. Many of our economic agencies have, in accordance with the plan ratified by the state, assisted construction departments and units to carry out "four fittings" and "five implementations," implement the state plan to the letter and enhance the completion of the plan. They have assisted construction departments and units to observe the principle of doing whatever they can with whatever they have and spending little and doing much, using the state's investment first on the key engineering projects and the projects in operation, and promoted the concentration of forces to fight a battle of annihilation. They have also assisted construction departments and units to regulate and balance investments without delay in accordance with the progress of construction, enabling investments to go from "insufficiency" to having surpluses. On the basis of investigations and study, some even put forward timely suggestions to the planning departments on readjusting the year's plan and arranging plans for the following year. All these show that, if we correctly understand and apply economic laws in a planned and proportionate manner, we can continue to raise the level of work of construction banks and bring their role of promotion and supervision into far greater play.

(III)

In the present stage, our country's socialist commodity production and commodity exchange still exist and the law of value still plays an important role. In talking about the law of value, Chairman Mao once said: "This law is a great school. Only by using it can we educate several tens of millions of our cadres and hundreds of millions of our people, and build our socialism and communism. Otherwise nothing is possible." The state's stipulation of the implementation of the economic accounting system in capital construction is a concrete application of the law of value. According to the demands of the economic accounting system, the construction units should, within the realm of the general investments in construction ratified by the state, complete their tasks according to quality, quantity and schedule, clearly define their economic responsibilities and set up a strict system of assessment and examination. Engineering units should strictly implement the ratified engineering budget, implement quota management, carry out accurate cost accounting, calculate labor consumption and assess economic results. Between the construction units and the engineering units, it is necessary to follow the state plan and the engineering budget in setting up economic contracts, clearly define the economic responsibilities which both sides will shoulder and act strictly in accordance with the economic contracts. In short, the various links in capital construction must conscientiously carry out accounting. Only accounting can realize that objectively existing law of value. The construction bank will handle in a concentrated manner the receipt and payment of capital for the capital construction departments and employ such economic measures as allocation of funds, settling of accounts and making of loans to calculate and supervise the economic activities in capital construction. In this way, it can effectively expedite the setting up of capital construction departments and perfect the economic accounting system.

The estimate and budgeting of capital construction form the basis for ascertaining the cost of a construction project and the basis for the implementation of the economic accounting system. The fixing of the cost of an engineering project is a relatively complicated process. It must have a balanced advanced quota that can reflect the necessary amount of social labor and must have a budget price and a criterion for drawing expenses that conform to state policies. Only with accurate quotas, prices and criteria, and only through conscientious calculations and the drawing up of more practicable estimates and budgets, can we favorably set up a system of economic responsibility to examine labor consumption and assess the results of business. In previous years, as a result of the interference and sabotage of Lin Biao and the "gang of four," confusion appeared in the handling of budget quotas, estimated prices for materials, and criteria of charges, with the quality of estimates and budgeting dropping considerably. Some units did not take objective reality into consideration and relied solely on "the will of the senior official," fixed at will the cost of the engineering projects, or even intentionally lowered the estimated investment as a means of contending for projects, investments and as a means of bargaining. Not only

were we unable to implement these estimates and budgets--we could not regard them as the grounds for assessing the results of business. Consequently, investments became utterly unrestricted, expenses spilled over in large quantities and the engineering projects were a mess. The supply system replaced the economic accounting system and serious losses and wastes were brought about. Experiences proved that a construction bank's active participation in the examination of the estimates (and budgets) and the fixing of a reasonable cost for an engineering project is an important link in the setting up of a system of economic responsibility and the implementation of economic accounting in capital construction.

In the work of allocating funds, construction banks implemented the principle of "payment to the engineering projects based on the degree of completion." This is an important measure in promoting economic accounting. If we do not sufficiently understand this point, and believe that the settling of the cost of an engineering project is merely a matter of allocating funds sooner or later and was of little importance, this is nothing but a reflection of our negligence of the role of economic measures.

In promoting economic accounting, construction banks had still another important measure, which was the making of loans. At present, the construction banks are handling two categories of loans: one category consists of short-term loans, used in solving temporary shortages in the circulating funds of the engineering units; the other category consists of special loans, which are used mainly to support the needs of developing local construction materials and the production of export commodities. With the development of economic construction and the reform of economic management, the sphere of loans will expand gradually and their role will be more and more apparent. For instance, some localities have already changed the allocation of funds reserved for capital construction equipment to the making of loans, and changed uncompensated use to compensated use, with fairly good results. The state also decided that construction banks would make loans in renminbi for the domestic equipment components and civil engineering projects required by foreign exchange loan projects. We must make good use of this economic measure to serve the acceleration of the four modernizations. In making loans, we must persevere in the principle of making and using loans according to plan; persevere in the principle of having material guarantees and principles favoring the acceleration of capital turnover; and persevere in the principle of repayment of loans on schedule. Whenever we make a loan, we must conscientiously study the use of the loan and the ability for repayment, and correct the phenomena of freely giving out a loan simply because the head issued a slip asking for it, failing to take material guarantees into consideration, failing to examine the effects of the loan and not being able to collect the loan on schedule.

As early as 1962, Chairman Mao pointed out: "To us, the socialist economy is a realm of necessity in which a lot remains to be understood." "In the future, we should accumulate our experiences, study assiduously and, through

practice, deepen our understanding of it step by step and understand its laws fully." At the national conference for trade to learn from Daqing and Dazhai, Chairman Hua also called upon us to raise our consciousness of applying the objective economic laws and raise our level of management in economic work. In the new year, we must study hard, be bold in practice, be good at summing up experiences, use the standpoints, concepts and methods of Marxism to study new situations and new problems, raise our consciousness of acting in accordance with the objective economic laws, enable our ideology to suit the development of the objective situation, raise the work of management of the allocation of funds for capital construction to a new level, score new achievements and serve in a better manner the building of a modern and powerful socialist country.

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DOMESTIC TRADE

INTERREGIONAL COMPENSATORY TRADE AGREEMENT SIGNED

Beijing RENMIN RIBAO in Chinese 19 Jul 79 p 1

[Report: "The Bureau of Handicrafts of Shanghai and Xinhua Paper Mill of Hangzhou Sign an Agreement -- To Promote Paper Production by Developing Interregional Compensatory Trade"]

[Text] Shanghai, 8 Jul (XINHUA) -- Recently, the Bureau of Handicrafts of the Shanghai Municipality and Xinhua Paper Mill of Hangzhou signed an interregional agreement on "compensatory trade." According to the provisions of this agreement, the Bureau of Handicrafts of the Shanghai Municipality is to supply 1 million yuan worth of equipment to help Xinhua Paper Mill remodel a workshop which has the capacity of producing 3,000 tons of paper per year. Xinhua Paper Mill is going to repay this equipment with cash in five yearly installments and, within 10 years, upon the beginning of production at this mill at the end of 1981, supply the Bureau of Handicrafts of the Shanghai Municipality 700 tons of paper products each year. It was also stipulated by the two sides that, within the next 2 years, Xinhua Paper Mill is to supply 350 to 400 tons of paper products to the Bureau of Handicrafts of the Shanghai Municipality in advance.

During these past few years, there has been a shortage in the supply of paper for cultural use in the market. The productive capacities of the cultural paper products enterprises within the jurisdiction of the Bureau of Handicrafts of the Shanghai Municipality could not be fully developed because of the shortage of paper supplies, printing facilities and binding services. At the same time, the large amount of cotton wastes scraped from the production of the paper for filtering and the wax paper for typing at Xinhua Paper Mill of Hangzhou each year, which ordinarily could have been used in the production of the paper for common use, was so utilized only to a very limited extent because of a lack of sufficient capital for adding necessary equipment for such a purpose. Consequently, after a period of promotional probing and prodding and relevant negotiation, and with the consent of the Coordinating Office of the Planning Committees of Zhejiang Province, Hangzhou Municipality and Shanghai

Municipality, the Bureau of Handicrafts of the Shanghai Municipality and the First Light Industry Bureau of Zhejiang Province signed this agreement of mutual support between the regions.

When this agreement is brought into effect, both sides will gain definite benefits.

During the next 2 years, for example, the Bureau of Handicrafts of the Shanghai Municipality is going to receive the promised 350 to 400 tons of paper products from the Xinhua Paper Mill of Hangzhou. After it is processed into cultural paper products, each ton of such paper supplied will gain 10,000 yuan in production value and 1,500 yuan in profit. In this way, the profits gained by the Bureau of Handicrafts of the Shanghai Municipality will exceed 1 million yuan within less than 3 years, which is equivalent to the entire original investment. Within 10 years, upon the beginning of production on the part of the workshop it has thus helped to remodel, Shanghai, by using the paper supplies by the Xinhua Mill in producing its own cultural products, can increase its production value by 7 million yuan, and its profits by 1.05 million yuan each year. This will meet one-third of the total amount of paper shortage suffered by the handicrafts network each year. Hence, this also serves to mollify at least in part the contradiction between the short supply of, and excessive demand for, paper felt in the Shanghai market. Because of this, it will also be possible for the Bureau of Handicrafts of the Shanghai Municipality to develop some processing teams or workshops of collective ownership so as to place a number of unemployed youths in needed employment.

The 1575 fourdrinier multi-cylinder paper-making machine and auxiliary equipment like pulping machine, steaming spheriod, [5544 3803], cutting and trimming machine, etc., that are supplied by the Bureau of Handicrafts of the Shanghai Municipality to the Xinhua Paper Mill of Hangzhou make up a complete system of automated paper-making equipment. The possession of this system will thus bring the paper-making equipment up to the most advanced level in the country. In the past, the state would allocate 3,000 tons of cotton to this mill as raw material each year, but, because the requirement for the quality of the products here was very high and the original equipment could not be utilized to its fullest capacity, the cotton supplied was utilized only up to 50 percent; with the new system of equipment added, the allocated cotton should now be fully utilized. After the beginning of production at this paper-making workshop, the Xinhua Mill should be able to increase its production value by 5.4 million yuan, and its profits by about 1 million yuan. Apart from the 700 tons of paper products to be supplied to the Bureau of Handicrafts of the Shanghai Municipality, another 2,300 tons of paper products can still be supplied to Zhejiang Province itself and also Hangzhou Municipality.

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